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Agricultural Finance Outlook

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Many persons provided valuable help in collecting survey data and other information used in this report. These included officers and other employees of commercial banks and the American Bankers Association, agricultural loan officers of life insurance companies, economists of the Federal Reserve System, State Directors and other employees of the Farmers Home Administration, presidents and other officers of the Federal Land Banks and Federal Intermediate Credit Banks, employees of the Farm Credit System and the Extension Service, and officials of the credit corporations of farm machinery manufacturing companies.

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AGRICULTURAL FINANCE OUTLOOK

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SUMMARY

Economic conditions for farmers have generally improved this year, and prospects continue favorable for 1979. Farm and nonfarm incomes of farm people have increased, asset values are continuing to appreciate strongly, and the continually rising debt remains well secured. Repayment and financing problems have been at a low level in 1978, although the cash flow situation varies greatly among producers.

Although interest rates are rising, adequate loan funds are expected to be available from farm lenders. Farm producers and lenders are much more optimistic in late 1978 than a year ago, when income levels were lower.

Net farm income in 1978 (before inventory adjustment) is forecast to increase at least one-fourth above the \$20 billion of last year. Much higher prices for meat animals and a general price improvement for many other products have resulted in a sharp rise in cash receipts from farm marketings. Direct Government payments and non-money incomes are each expected to be up further.

With most costs continuing to rise, farmers will likely be paying about \$8 billion more in production expenses during 1978. Off-farm earnings of farm operators are continuing to rise rather steadily and in 1978 are forecast to exceed last year's \$31.5 billion by about 5 percent.

Net cash farm and off-farm incomes in 1979 are both projected to rise a little further. Widespread increases in farmland values continue, averaging 8-10 percent nationally.

Incomes of livestock producers improved greatly in 1978, a situation that seems likely to continue in 1979. Sharp reductions in the cattle herd, and less beef coming on the market, have boosted prices for red meats as well as poultry.

Also, hog production has not expanded this year as expected in spite of favorable feed-product price ratios. Dairy producers have had strong markets and incomes this year, as well.

With curtailed domestic output, strong demand, and substantial Government payments, wheat producers' incomes have improved in 1978. However, feed crop production has increased further with a record corn crop. A further sizeable buildup in carryover stocks is in prospect, although placement of stocks into the farmer-owned reserve has moderated downward price pressures.

Cotton production is 24 percent below 1977 and less than total use. Prices have strengthened in recent months but the economic condition of cotton farmers has been less favorable than for most other farm types, especially in the drought-stricken areas of Texas and Oklahoma.

While economic conditions for producers on different types of farms have been fairly diverse in recent years, balance sheets for several of the types all show assets and equities continued to increase in 1977, and further large increases are expected for 1978.

Banks and production credit associations reported only 2 to 3 percent of their customers were not able to qualify for financing this year, which is only about half the percentage of 1977. Some farmers in weak financial condition have, or will, become customers of the Farmers Home Administration (FmHA) or the Small Business Administration (SBA).

Total farm asset values rose more in 1978 than in 1977—a gain of \$66 billion compared with \$53 billion. Farmland values are forecast to rise about \$47 billion in 1978, slightly more than in 1977. An \$11-billion rise is occurring in livestock values, reflecting the jump in value per head. The gain in assets in 1978 of 9 percent can be compared with an 8-percent rise in 1977 and the average gain of

12 percent over the past 5 years. Farm proprietors' equities are expected to rise \$49 billion in 1978, \$12 billion more than in 1977.

Farm debt should increase nearly the same in 1978 as last year, but there will be some slowdown in new Commodity Credit Corporation price support lending. Total debt by January 1, 1979 is expected to reach \$136 billion, a \$17-billion increase during the year. A great expansion has occurred in FmHA emergency loans and in farm loans of the SBA. These Federal programs have been important methods used by the Federal Government to assist farmers hurt by drought and other disasters.

This year's rise in total farm debt is forecast to outpace the rate of gain in farm asset values. Thus, the debt/asset ratio is increasing slightly this year, and will reach 17.6 percent on January 1, 1979. However, this ratio was only 1 percentage point higher than 10 years ago. The current condition of the farm debt reflects cautious borrowing by many farmers and efforts of borrowers and lenders to modify and restructure loan terms when needed. The Federal emergency loan programs have also helped many of the most hard-pressed farm operators.

Farm debt in 1979 is projected to rise about 13 percent, slightly less than this year.

BALANCE SHEET OF THE FARMING SECTOR, JANUARY 1, 1979

The total value of farm assets is expected to reach \$774 billion, \$66 billion or 9 percent more than at the beginning of 1978 (table 1). As usual, farm real estate will account for most of the gain, in this case, \$47 billion or 72 percent of the increase.

The value of farm real estate is expected to rise at about the same rate during 1978 as in 1977, 9 percent. Physical asset values other than real estate are expected to total \$163 billion on January 1, 1979, \$17 billion above January 1, 1978 and almost double the increase during 1977. A record \$10.8-billion increase in the estimated value of livestock and poultry on farms will account for three-fifths of the total value gain of those assets. Sharply higher values per head than a year earlier are more than offsetting the smaller number of cattle and calves on farms.

Machinery and motor vehicles on farms may gain in value somewhat more than during 1977 as the higher values per unit more than offset the

smaller number of units purchased and the depreciation charges against these items. The value of farmer-owned stored crops is expected to be slightly higher than on January 1, 1978. Financial assets are expected to increase like last year.

Capital gains on farm physical assets—real estate, livestock, machinery, and stored crops—are an important addition to farm proprietors' wealth. Since 1970, capital gains, although mostly nonmonetized, have been much more important than income in farmers' total wealth accumulation. In 1978, farm capital gains will total an estimated \$67 billion, two and a half times the expected farm net income. For the period 1971-78, the gain in farm physical asset values totaled \$432 billion, considerably more than the sum of total net farm incomes. Real estate usually accounts for four-fifths or more of farm capital gains. About two-thirds of the gain accrues to farm operators and the other one-third to nonoperator landlords.

Table 1—Balance sheet of the farming sector, January 1, 1969-79

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979 ¹
	<i>Billion dollars</i>										
Physical assets:											
Real estate assets	209.2	215.8	223.2	239.6	267.3	327.7	368.5	416.9	483.8	525.8	573.1
Nonreal estate assets ²	71.8	76.3	78.7	86.5	99.7	120.9	117.6	129.7	136.5	146.3	163.4
Total physical assets	281.0	292.1	301.9	326.1	367.0	448.6	486.1	546.6	620.3	672.1	733.9
Financial assets:											
Commercial bank deposits and currency	11.5	11.9	12.4	13.2	14.0	14.9	15.0	15.6	16.0	16.3	16.7
Other financial assets ³	10.6	10.9	11.6	12.5	13.8	15.0	16.4	17.7	18.6	19.9	21.1
Total financial assets	22.1	22.8	24.0	25.7	27.8	29.9	31.4	33.3	34.6	36.2	37.8
Total farm assets	303.1	314.9	325.9	351.8	394.8	478.5	517.5	579.9	654.9	708.3	774.3
Debt claims:											
Real estate debt	27.4	29.2	30.3	32.2	35.7	41.3	46.3	51.1	56.5	63.3	72.2
Nonreal estate debt	20.4	21.1	22.2	24.6	27.8	32.1	35.2	39.4	45.1	51.1	58.2
CCC nonrecourse loans	2.7	2.7	1.9	2.3	1.8	.7	.3	.3	1.0	4.5	5.5
Total debt claims on farm assets	50.5	53.0	54.4	59.1	65.3	74.1	81.8	90.8	102.5	118.9	135.9
Equity	252.6	261.9	271.5	292.7	329.5	404.4	435.7	489.1	552.3	589.4	638.4
	<i>Percent</i>										
Debt to asset ratio	16.7	16.8	16.7	16.8	16.6	15.5	15.8	15.7	15.7	16.8	17.6
Debt to equity ratio	20.0	20.2	20.1	20.2	19.8	18.3	18.8	18.6	18.6	20.2	21.3

¹ Preliminary estimate. ² Includes machinery and motor vehicles, household furnishings and equipment and inventories of crops (including crops held as security for CCC loans) and livestock. ³ Includes U.S. savings bonds and investments in farmer cooperatives. Does not include financial claims on specific nonfarm assets such as holdings of common stocks as data on these claims are not available.

Total farm debt is expected to increase a record \$17.0 billion in 1978 compared with \$16.3 billion in 1977. However, the expected rate of increase, 14.3 percent, is somewhat less than the 15.9-percent rise during 1977.

Equity in farm assets is expected to show a \$49-billion gain in 1978, nearly \$10 billion more than

in 1977, due to the greater dollar growth in farm asset values than in farm debt.

Because debts rose at a faster rate in 1978 than asset values, the debt-to-asset ratio on January 1, 1979 will be about 17.6 percent, up from 16.8 percent a year earlier.

FARM REAL ESTATE VALUES

Based on a recent survey of commercial farm lenders, farm real estate values are expected to increase an average of 8 to 10 percent at the national level for the year ending February 1, 1979. The brighter income prospects beginning in the second quarter of 1978 restored optimism within the farm sector and vitality to buyer and seller expectations.

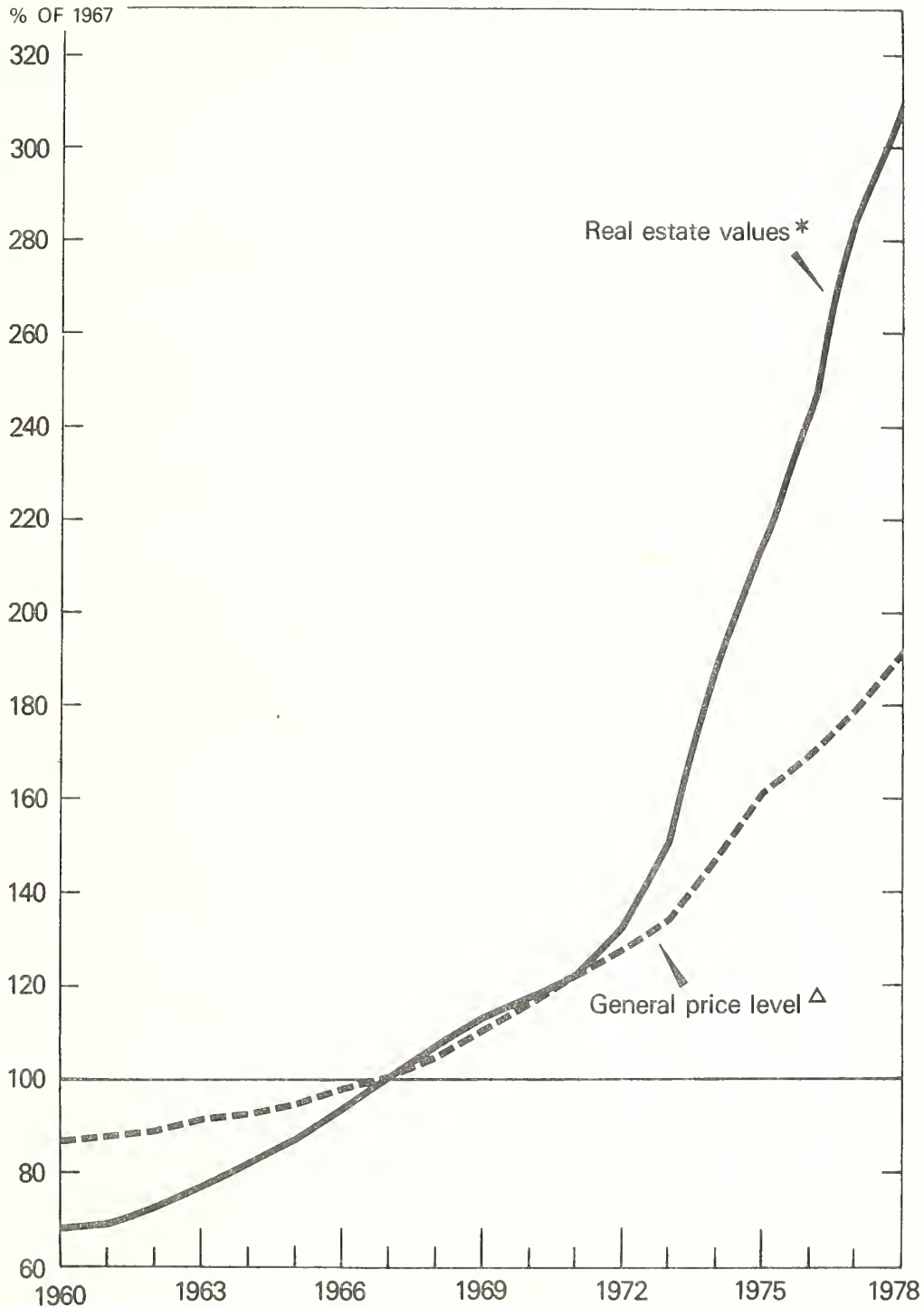
Nationally, no particular region is expected to lead in land price advances as did the North Central States during 1972-77. The large increases in cattle prices apparently have not brought about big boosts in the price of grazing and pasture land. Instead, in the Plains and Mountain States, grazing-land values are rising only moderately at rates similar to the increase for nonirrigated cropland. Apparently, many ranchers have not fully recovered from the previous 4 years of generally unfavorable prices and incomes.

Irrigated cropland values are changing little on average. Slight increases in some areas are being offset by slight decreases in others. Continually increasing energy costs such as for natural gas and electricity have made it especially difficult to sell irrigated land at higher prices.

Overall, investment in farm real estate has continued to be an excellent hedge against inflation (figure 1) and the major contributor to farm owners' equity growth. However, the rapidly increasing land prices have also made it increasingly difficult for those who recently made large investments in farm real estate and capital to meet their debt payments out of net farm income.

Evidence of the difficulty in justifying present land prices based on net farm income is provided by the USDA's cash rental series. The survey indicates that the average ratio of gross cash rent to land value in many States has dropped by 1 to 2 percentage points during the last 4 years. Possible explanations why the land prices still continue upward include: (1) speculation that land prices will continue upward without sufficient consideration of present or future justification of the land prices based on net farm incomes, (2) farm enlargers accepting a lower net return per acre to permit them to earn a higher total net farm income per operating unit, or (3) expectations of higher net farm incomes created largely by the 1973-76 high feed and food grain prices.

FARM REAL ESTATE VALUES AND THE GENERAL PRICE LEVEL



* INDEX OF FARMLAND AND BUILDING VALUE PER ACRE, MARCH 1, 1960-75 AND FEBRUARY 1, 1976-78.

Δ INDEX OF GENERAL PRICE LEVEL (GROSS NATIONAL PRODUCT DEFLATOR); 1978 SECOND QUARTER DATA.

USDA

NEG. ESCS 3164-78 (11)

NEG. ESCS 3162-78 (11)

Figure 1

FARM DEBT GROWTH CONTINUES

Excluding CCC loans, the debt growth rate in 1978 is slightly above that of 1977 and 1976 (table 2). Present indications are that CCC loans are rising less rapidly than last year, thereby easing the growth in total debt to 14 percent from the 16 percent in 1977. CCC loans are a major means used by the Federal government to help maintain farm prices and incomes of producers of major crops (figure 2).

Farm real estate debt growth has been growing faster than in 1977 (figure 3). Some of the growth was due to increases in farmland transfers of higher valued land. There was, however, little further growth in refinancing of nonreal estate debt into farm real estate secured debt. Lending by life insurance companies has been especially active.

The quality of the real estate debt remained strong in the year. Interest rates started to rise after mid-year.

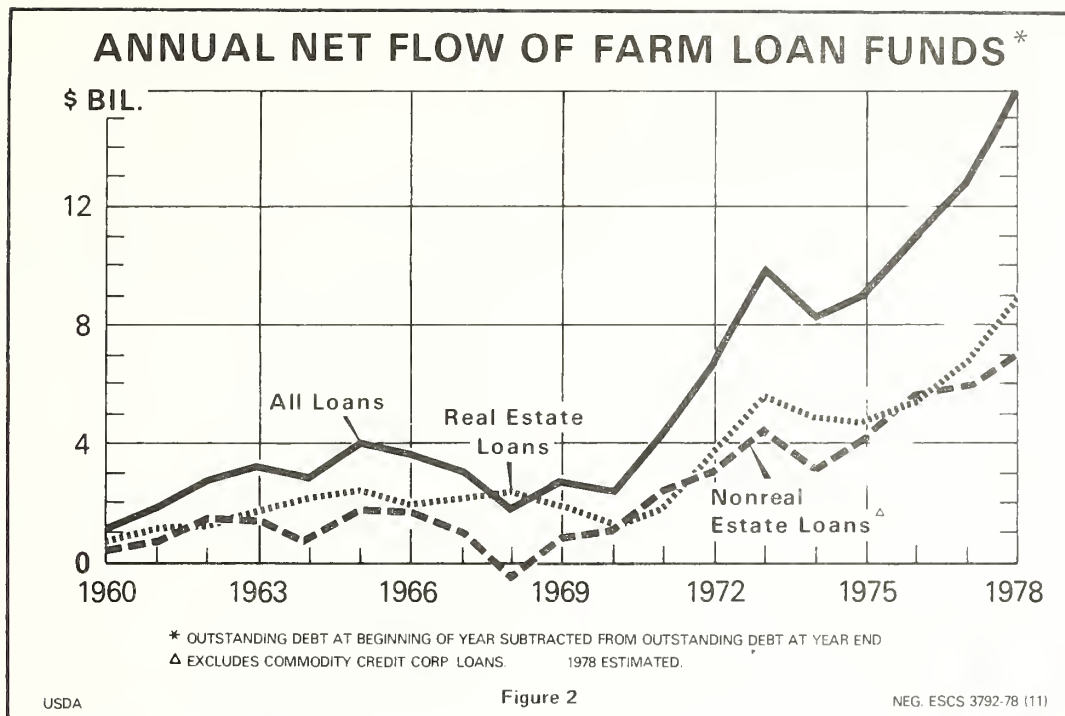
In nonreal estate lending, the growth rate in 1978, excepting CCC loans, is expected to match that of recent years, about 14 percent. The greatest rise is in Government emergency loans. With CCC loans rising less rapidly than during 1977, the overall increase in total nonreal estate lending is forecast at 14 percent compared with 21 percent in 1977.

The availability of farm loan funds and the level of interest rates in 1979 will be influenced by Federal activities to curb inflation and strengthen the value of the dollar.

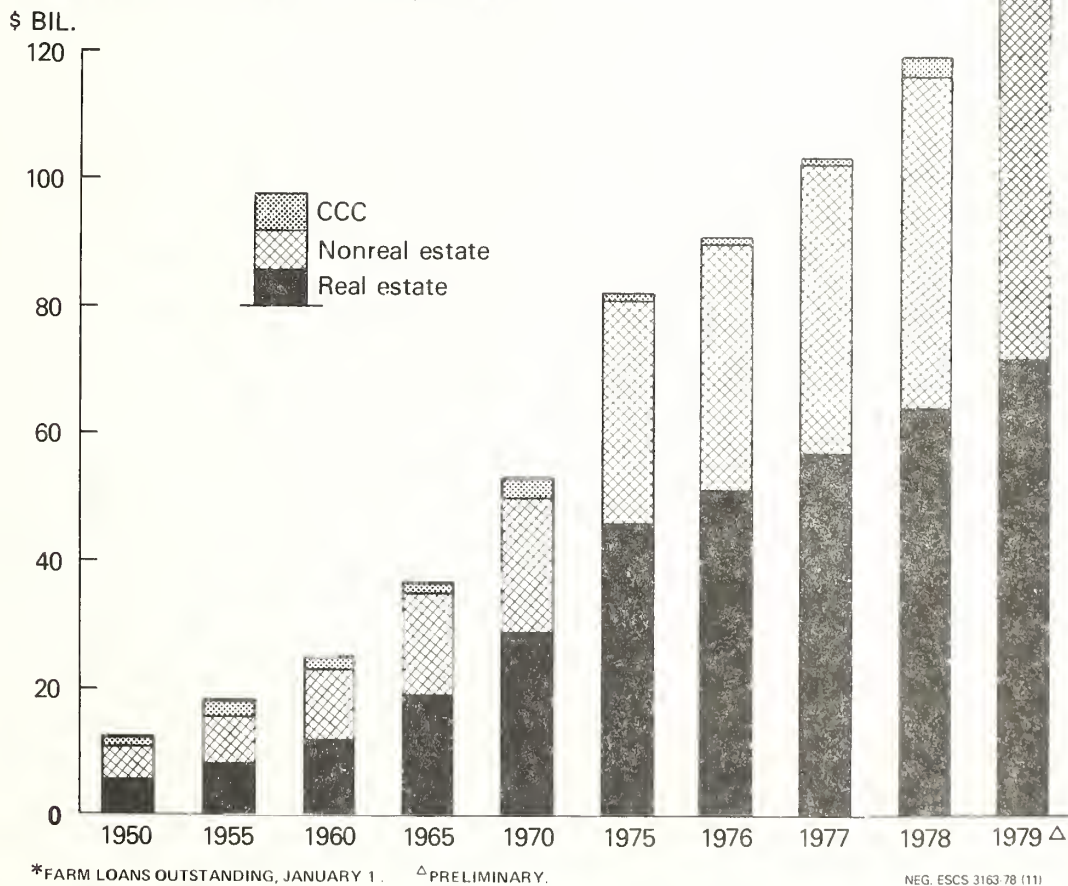
Table 2—Total farm debt 1969 and 1974-79

Year	Real estate debt	Nonreal estate debt excluding CCC loans	Price support and storage loans made or guaranteed by CCC	Total excluding CCC loans	Total including CCC loans
<i>Million dollars outstanding, Jan. 1</i>					
1969	27,397	20,387	2,671	47,784	50,455
1974	41,253	32,134	750	73,387	74,137
1975	46,288	35,226	319	81,514	81,833
1976	51,069	39,406	358	90,475	90,833
1977	56,560	45,061	1,012	101,621	102,633
1978 ²	63,302	51,142	4,489	114,444	118,933
1979 ¹	72,215	58,190	5,500	130,405	135,905
<i>Dollar change in year(s)</i>					
1969-73	13,856	11,747	-1,921	25,603	23,682
1974-78	30,962	26,056	4,750	57,018	61,768
1974	5,035	3,092	-431	8,127	7,696
1975	4,781	4,180	39	8,961	9,000
1976	5,521	5,655	654	11,176	11,830
1977	6,742	6,081	3,477	12,823	16,300
1978	8,913	7,048	1,011	15,961	16,972
<i>Percent change in year(s)</i>					
1969-73	50.6	57.6	256.1	53.6	46.9
1974-78	75.1	81.1	633.3	77.7	83.3
1974	12.2	9.6	-57.5	11.1	10.4
1975	10.3	11.9	12.2	11.0	11.0
1976	10.8	14.4	182.7	12.4	13.0
1977	11.9	13.5	343.6	12.6	15.9
1978	14.1	13.8	22.5	13.9	14.3
<i>Percentage distribution of debt outstanding, Jan. 1</i>					
1969	54.3	40.4	5.3	94.7	100.0
1974	55.7	43.3	1.0	99.0	100.0
1975	56.6	43.0	0.4	99.6	100.0
1976	56.2	43.4	0.4	99.6	100.0
1977	55.1	43.9	1.0	99.0	100.0
1978	53.2	43.0	3.8	96.2	100.0
1979	53.1	42.8	4.0	96.0	100.0

¹ Preliminary. ² Revised.



FARM DEBT OUTSTANDING *



Farm Real Estate Debt

Farm real estate debt outstanding is expected to reach \$72.2 billion by January 1, 1979—an annual increase of 14 percent (table 3). This is the largest annual percentage increase since 1973 and well above last year's 12 percent.

The real estate debt-to-asset ratio for January 1, 1979 is expected to be 12.6 percent, leaving an equity of 87.4 percent. The current increase in outstanding debt results from a combination of higher land prices, a slight increase in the transfer rate, slower loan repayments in some areas, and the continuation of securing short-term debt with real estate mortgages. Contrary to popular opinion, the rate of refinancing of short- into long-term debt has been increasing only moderately in 1978 compared to the general levels throughout the 1970-77 period.

Farm real estate lenders passed through the agricultural cost-price squeeze during the year ending March 31, 1978 relatively unscathed and even the financial position of borrowers was still termed much improved over a year earlier due to increases in farm income and Government loans and payment to farmers, and slow sales of farm equipment and machinery.

Loan repayment rates are as good or better than last year's and delinquencies continue at very low levels. Although interest rates are rising and there is concern over the high cost of obtaining funds from the Nation's money markets, demand appears to be picking up during the second half of calendar year 1978. This increase in demand poses no problem, however, because farm real estate loan funds are expected to be adequate.

Among institutional lenders, Federal land banks (FLB's) hold the majority of real estate debt out-

Table 3—Real estate farm debt 1969 and 1974-79

Year	Federal land banks	Farmers Home Administration	Life insurance companies	Commercial banks	Individuals and others	Total
<i>Million Dollars Outstanding, Jan. 1</i>						
1969	6,081	2,054	5,764	3,333	10,165	27,397
1974	10,901	3,013	5,965	5,458	15,915	41,253
1975	13,402	3,215	6,297	5,966	17,408	46,288
1976	15,950	3,369	6,726	6,296	18,728	51,068
1977	18,455	3,657	7,400	6,781	20,266	56,560
1978 ²	21,391	3,982	8,480	7,780	21,669	63,302
1979 ¹	24,490	4,400	9,998	8,560	24,767	72,215
<i>Dollar Change in year (s)</i>						
1969-73	4,820	959	201	2,125	5,750	13,856
1974-78	13,589	1,387	4,033	3,102	8,852	30,962
1974	2,501	202	332	508	1,493	5,035
1975	2,548	154	429	330	1,320	4,781
1976	2,505	289	674	485	1,538	5,492
1977	2,936	324	1,080	999	1,403	6,742
1978	3,099	418	1,518	780	3,098	8,913
<i>Percent Change in year(s)</i>						
1969-73	79.3	46.7	3.5	63.8	56.6	50.6
1974-78	124.7	46.0	67.6	56.8	55.6	75.1
1974	22.9	6.7	5.6	9.3	9.4	12.2
1975	19.0	4.8	6.8	5.5	7.6	10.3
1976	15.7	8.6	10.0	7.7	8.2	10.8
1977	15.9	8.9	14.6	14.7	6.9	11.9
1978	14.5	10.5	17.9	10.0	14.3	14.1
<i>Percentage Distribution of Debt Outstanding, Jan. 1</i>						
1969	22.2	7.5	21.0	12.2	37.1	100.0
1974	26.4	7.3	14.5	13.2	38.6	100.0
1975	29.0	6.9	13.6	12.9	37.6	100.0
1976	31.2	6.6	13.2	12.3	36.7	100.0
1977	32.6	6.5	13.1	12.0	35.8	100.0
1978	33.8	6.3	13.4	12.3	34.2	100.0
1979	33.9	6.1	13.8	11.9	34.3	100.0

¹ Preliminary. ² Revised.

standing—an expected 51.6 percent of the total by January 1, 1979.

Life insurance companies, however, are expected to show the largest annual percentage increase in the holdings with a 17.9-percent increase—their greatest annual gain since 1921. This lender group is continuing its competitive expansion back into the farm real estate lending market. The tendency is to lend to large agricultural enterprises, which results in larger-than-average loans with lower overhead lending costs per dollar of loan. For example, according to USDA's quarterly survey of life insurance companies, the average size of loan held by this group on January 1, 1978 was 79 percent larger than that held by FLB's, and the average size of life insurance company loans made during 1977 was 277 percent larger.

Noninstitutional lenders—individuals and others (primarily farmland sellers)—are expected to experience their largest annual percentage increase in loans outstanding since 1973—up 14.3 percent. The increase is due to increased demand for long-term loan funds and rising interest rates charged by the major institutional lenders. The comparatively lower interest rates charged on the non-institutional land sales contracts and mortgages encourage their use.

Nonreal Estate Farm Debt

The expected 14-percent increase during 1978 in outstanding nonreal estate debt reflects unusual differences in growth rates among lenders (table 4). The major lenders—banks and PCA's—are

Table 4—Nonreal estate farm debt 1969 and 1974-79

Year	Debt owed to reporting institutions (excluding CCC)					Debts owed to individuals and others ¹	Total excluding CCC loans	Price support and storage loans made or guaranteed by CCC	Total including CCC loans
	All operating banks	Production credit associations	Federal intermediate credit banks	Farmers Home Administration	Total				
	Million dollars outstanding, Jan. 1								
1969	9,720	3,826	180	822	14,547	5,840	20,387	2,671	23,058
1974	17,167	7,829	331	877	26,204	5,930	32,134	750	32,884
1975	18,238	9,519	374	1,044	29,176	6,050	35,226	319	35,545
1976	20,160	10,773	350	1,772	33,056	6,350	39,406	358	39,764
1977	23,283	12,233	368	1,877	37,761	7,300	45,061	1,012	46,073
1978 ²	25,709	13,508	374	3,141	42,732	8,410	51,142	4,489	55,631
1979 ³	27,580	14,720	370	5,400	48,070	10,120	58,190	5,500	63,690
	Dollar change in year(s)								
1969-73	7,447	4,003	151	55	11,657	90	11,747	-1,921	9,826
1974-78	17,860	10,894	190	4,578	33,523	4,280	37,803	2,829	40,632
1974	1,071	1,690	43	167	2,972	120	3,092	-431	2,661
1975	1,922	1,254	-24	728	3,880	300	4,180	39	4,219
1976	3,123	1,460	18	105	4,705	950	5,655	654	6,309
1977	2,426	1,275	6	1,264	4,971	1,110	6,081	3,477	9,558
1978	1,871	1,212	-4	2,259	5,338	1,710	7,048	1,011	8,059
	Percent change in year(s)								
1969-73	76.6	104.6	83.9	6.7	80.1	1.5	57.6	-71.9	42.6
1974-78	60.7	88.0	11.8	515.7	83.4	70.7	81.1	633.3	93.7
1974	6.2	21.6	13.0	19.0	11.3	2.0	9.6	-57.5	8.1
1975	10.5	13.2	-6.4	69.7	13.3	5.0	11.9	12.2	11.9
1976	15.5	13.6	5.1	5.9	14.2	15.0	14.4	182.7	15.9
1977	10.4	10.4	1.6	67.4	13.2	15.2	13.5	343.6	20.7
1978	7.3	9.0	-1.1	71.9	12.5	20.3	13.8	22.5	14.5
	Percentage distribution of debt outstanding, Jan. 1								
1969	42.2	16.6	0.8	3.6	63.1	25.3	88.4	11.6	100.0
1974	52.2	23.8	1.0	2.7	79.7	18.0	97.7	2.3	100.0
1975	51.3	26.8	1.1	2.9	82.1	17.0	99.1	0.9	100.0
1976	50.7	27.1	0.9	4.4	83.1	16.0	99.1	0.9	100.0
1977	50.5	26.6	0.8	4.1	82.0	15.8	97.8	2.2	100.0
1978	46.2	24.3	0.7	5.6	76.8	15.1	91.9	8.1	100.0
1979	43.3	23.1	0.6	8.5	75.5	15.9	91.4	8.6	100.0

¹ Includes farm loans of the Small Business Administration, an estimated \$250 million on Jan. 1, 1978, and \$1,500 million on Jan. 1, 1979. ² Revised. ³ Preliminary.

expanding their loans slightly less than in 1977. CCC debt is also rising less rapidly. Strong growths are in FmHA loans and in loans of the "individuals and other" group, which includes the SBA farm loans.

FmHA debt expansion continues to be mostly in its emergency loans which at midyear were loaned to 86,000 farmers—nearly double the year-earlier number. SBA borrowers are fewer, about 10,000. In total, increases in FmHA and SBA emergency/disaster loans during 1978 accounted for an estimated \$3.5 billion or about 40 percent of the total nonreal estate debt expansion of the year. The share of total outstanding nonreal estate debt that is emergency/disaster loans is estimated at 9 percent on January 1, 1979, compared with 4 percent on January 1, 1978. This type of lending constituted a much more important element in the farm financing picture in 1978 than in previous years.

Most of the Federal intermediate credit bank survey reports (reporting on PCA's) and several of those from the Federal land banks commented on the increase in FmHA and SBA lending in their Districts. Some survey respondents expressed the view that emergency loans were sometimes competitive with those of private lenders. Also, the 3-percent interest rate on some of the loans was felt to be unduly attractive to potential borrowers. It will probably be a number of years before the outcome of many of these loans is known. One measure that can be watched is the FmHA quarterly reports which indicate the delinquency status of the different types of FmHA loans.

The large volume of emergency loans made during the last year relieved the financial stress of many farm operators, at least for a time. This development probably also contributed to a moderation of demands for new loans and to greater repayments of old loans of commercial lenders, and some related upgrading of the quality of their remaining loans.

FmHA lending is being modified by the Agricultural Credit Act of 1978. In addition to various other provisions, the Act authorized \$4 billion for an economic emergency loan program extending through May 15, 1980. Loans under this part of the Act are being made to farmers who because of economic stress are unable to obtain adequate financing from non-FmHA sources. While this type of FmHA financing will become significantly larger in 1979, the usual FmHA emergency loan activity will probably decrease. Weather has been more favorable this year than in 1977 and this may lessen FmHA emergency-type credit needs next year. Interest rates on some FmHA emergency loans are being raised to 5 percent from the earlier 3-percent rate. Rates on similar type SBA loans are also being increased.

The survey respondents indicated that the condition or quality of their nonreal estate farm loans had improved in 1978. Apparently there had been little actual worsening in loan condition during 1977, despite the declines in incomes of cash grain and cotton producers.

American Bankers' Association (ABA) reports indicated little change in farm loan repayment rates at banks had occurred by mid-1978, and that renewals and extensions were still higher than usual. Use of real estate as additional security for operating loans was still a little more common than average, reported as being used by about 6 percent of bank borrowers in 1978. However, related measures of loan quality—delinquencies, losses, and the bankers' opinions about the quality of their loans—were all improving in 1978, and these measures, together with repayment rates, were expected by the survey respondents to improve in 1979.

The rate of repayment on PCA loans nationwide was the highest of the last 3 years in the first 9 months of 1978. Most of the Farm Credit Districts reported higher repayments in 1978 than in 1977 and fewer delinquencies. Renewals were about the same.

A number of factors were involved in the well-maintained condition of the farm nonreal estate debt in 1978. One was improvement in farm incomes. Another was the efforts of the lenders to work with borrowers who needed their loans restructured with longer terms and smaller periodic repayments. The continuing rise in farmland prices providing additional loan security was a factor, as was the takeover of some of the troublesome loans by the FmHA and the SBA.

Despite the satisfactory overall condition of their loan portfolios, it did appear that lenders counseled borrowers more often than usual about the need to meet established repayment schedules. Farm operators also may be more cautious about using loan funds because of the uncertainties in income and product prices many of them have been experiencing.

Commercial bankers expected further strong increases in most types of their farm loans again next year (table 5). While a larger proportion of banks reported that their loan/deposit ratios were higher than they desired, nearly as many banks expected their farm loans to increase as had reported increases in 1977/78.

Fewer banks expected increases in their farm real estate loans in 1979 than for other types of loans. More banks expected their feeder cattle loans and their other livestock loans to increase in 1979, continuing an upward trend that started in 1978.

Loan funds from individuals and others (I&O) rose sharply in 1978, reflecting the expansion in

Table 5—Changes in volume of different types of farm loans at commercial banks, United States¹

Type of Loan	Estimated change:			Expected change:		
	Mid-1977 to mid-1978			Mid-1978 to mid-1979		
	Increase	Decrease	Same	Increase	Decrease	Same
<i>Percent of banks reporting</i>						
General operating	72	10	18	67	7	26
Machinery	54	12	34	52	9	39
Crop storage	40	9	51	39	9	52
Livestock	38	12	50	41	8	51
Feeder cattle	37	18	45	47	10	43
Farm real estate	32	20	48	25	20	55
Total	73	9	18	70	6	24

¹ Data were obtained in a survey conducted by the American Bankers Association (ABA) in Aug.-Sept. 1978.

Small Business Administration lending (these loans are included in the I&O group). SBA loans are estimated to have increased by \$1,250 million dollars during the year. These loans were heavily concentrated in States affected by 1977 drought—nearly half were in Iowa and Georgia.

Loans of the six full-line machinery manufacturers were estimated to be rising much more slowly in 1978—only about 3 percent—versus the 40-percent increase of 1977 (table 6). Loans of farm machinery dealers and of other merchants

and dealers are included in the I&O group.

Interest rates on farm loans have been rising (figure 4), and further increases are in prospect. Short-term rates rose especially sharply this summer and fall; long-term rates are reflecting more gradually the increases that have been occurring in central money market rates. Interest costs are also increased because of higher rates on SBA and FmHA disaster/emergency loans, and on FmHA farm ownership loans.

Table 6—Loan funds supplied by six large full-line farm machinery manufacturers for retail purchases of farm machinery and equipment¹

	Loans outstanding end of year	
	<i>Million dollars</i>	<i>Percent (1970=100)</i>
1970	1,170	100
1971	1,179	101
1972	1,499	128
1973	1,183	101
1974	1,160	99
1975	1,530	131
1976	2,192	187
1977 ²	3,067	262
1978 ³	3,165	270
	Loans made during year	
	<i>Million dollars</i>	<i>Percent (1970=100)</i>
1970	928	100
1971	936	101
1972	1,329	143
1973	1,065	115
1974	876	94
1975	1,236	133
1976	1,915	206
1977 ²	2,682	289
1978 ³	2,770	298

¹ Excludes loans estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for the other 2. Data, including estimates for 1978 and revisions, were provided by the six companies. ² Revised. ³ Estimated.

INTEREST RATES ON FARM LOANS

PERCENT

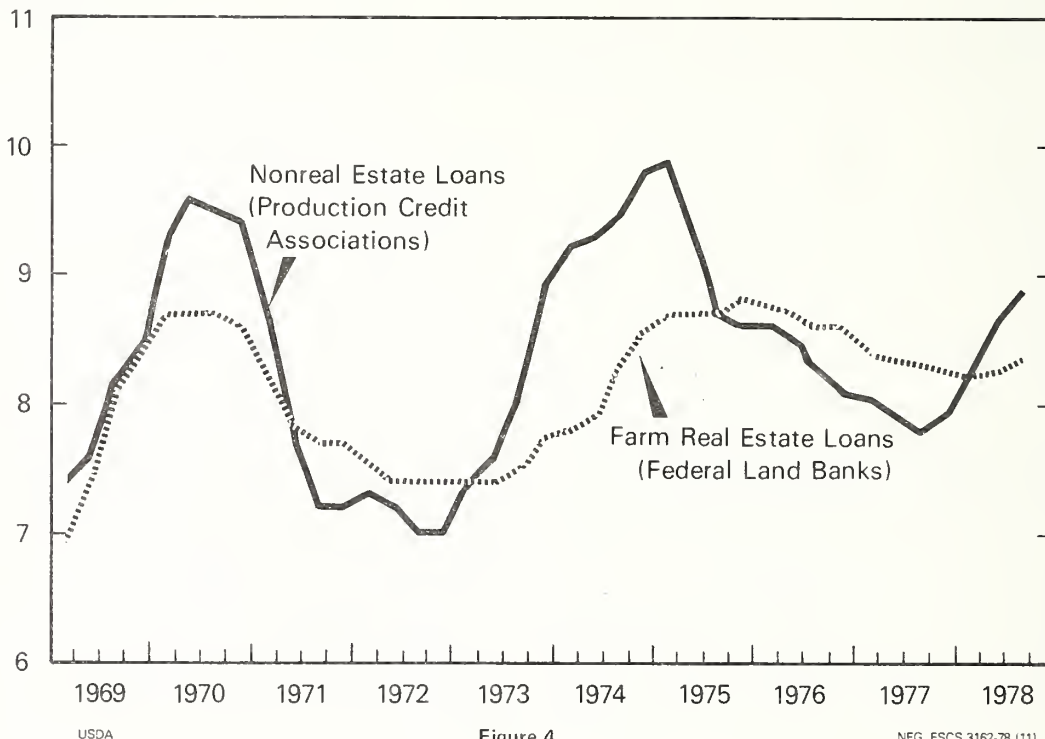


Figure 4

NEG. ESCS 3162-78 (11)

CASH SOURCES AND USES OF FUNDS FOR THE FARM SECTOR—1978

Cash sources of funds for the farm sector in 1978 are forecast at \$85.9 billion (table 7). These funds include net cash farm income plus nonfarm income of farm operators and their families as well as the net flow of real estate and nonreal estate loan funds. Income from the sale of farmland to the nonfarm sector, gifts, and inheritances are not included due to the lack of data.

Income from Farm and Nonfarm Sources

Net cash income from farm and nonfarm sources (in current dollars) increased substantially in 1978. Much of the increase is attributable to higher net cash farm income resulting from improved prices for livestock and livestock products. Measured in real dollars (using the GNP price deflator), total net cash income from farm and nonfarm sources was \$1.1 billion higher in 1978 than 1977. Real net cash income in 1978 was still below the annual average amounts for 1972 through 1976.

The ratio of net cash income from farm and nonfarm sources to total cash uses of funds measures the degree to which farm operators rely on

internally generated funds to meet their cash needs. For 1978, this ratio is estimated at 82 percent, a slight drop from the previous year (table 7). The decline occurred as the cash flow position of farm operators improved, particularly of livestock operators. Increased borrowing to finance capital acquisitions is the reason for the decline.

Farm Borrowing

The net increase in farm real estate loans for 1978 is estimated at \$8.9 billion, or \$2.2 billion higher than the net increase in 1977. Life insurance companies and Federal Land Banks have substantially increased the volume of their farm real estate loans.

The net flow of nonreal estate loans, excluding CCC loans, is estimated at \$7.1 billion, or \$1.2 billion more than the net increase in 1977. Banks and production credit associations are the main source of nonreal estate loan funds. FmHA became a more important source in 1978.

The ratio of debt outstanding to total net cash income is a measure of the relative burden of debt against income. This ratio has increased from 100

Table 7—Cash sources and uses of funds for the U.S. Farm Sector, 1969-1978

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978 ^a
<i>Billion dollars</i>										
Cash Sources of Funds: ^b										
1 Net cash income from farm and nonfarm sources	36.5	37.6	38.8	46.9	65.0	65.0	60.0	63.3	63.4	69.9
2 Net flow of real estate loans	1.8	1.1	1.9	3.5	5.6	5.0	4.8	5.5	6.7	8.9
3 Net flow of nonreal estate loans ^c	.7	1.2	2.3	3.2	4.3	3.1	4.2	5.7	5.9	7.1
4 Total cash sources of funds ^d	39.0	39.9	43.0	53.6	74.9	73.1	69.0	74.5	76.0	85.9
Cash Uses of Funds: ^d										
5 Purchases of machinery and motor vehicles ...	4.5	4.9	4.9	5.7	7.6	8.2	8.7	9.2	9.4	10.1
6 Capital improvement to real estate assets	2.3	2.4	2.5	2.4	3.1	4.4	4.7	5.0	5.9	6.2
7 Other capital purchases ^e	1.2	1.5	2.5	3.0	2.5	1.1	1.0	1.4	2.0	2.4
8 Annual capital formation	8.0	8.8	9.9	11.1	13.2	13.7	14.4	15.6	17.3	18.7
9 Purchases of real estate from discontinuing proprietors	4.3	4.1	5.8	8.5	11.4	9.5	9.8	12.2	11.8	12.7
10 Total purchased capital	12.3	12.9	15.7	19.6	24.6	23.2	24.2	27.8	29.1	31.4
11 Personal consumption and other cash uses	26.7	27.0	27.3	34.0	50.3	49.9	44.8	46.7	46.9	54.5
12 Total cash uses of funds	39.0	39.9	43.0	53.6	74.9	73.1	69.0	74.5	76.0	85.9
Capital Flows:										
13 Total purchased capital	12.3	12.9	15.7	19.6	24.6	23.2	24.2	27.8	29.1	31.4
14 Change in inventories	.1	.0	1.4	.9	3.4	-1.6	3.4	-2.3	.4	-1.0
15 Total capital flow	12.4	12.9	17.1	20.5	28.0	21.6	27.6	25.5	29.5	30.4
Real Dollar Flows:										
16 Total net cash income/GNP deflator (1958=100)	28.5	27.8	27.4	32.1	41.6	38.2	32.3	32.4	30.7	31.8
17 Personal consumption and other cash uses/GNP deflator (1958=100)	20.6	20.0	19.3	23.3	32.2	29.3	24.1	23.9	23.2	24.8
<i>Percent</i>										
Analytical Ratios:										
18 Total purchased capital/total net cash income (line 10÷1)	34	34	40	42	38	36	40	44	46	45
19 Total net flow of loans/total purchased capital (2+3÷10)	20	18	27	34	40	35	37	40	43	51
20 Total net flow of loans/total capital flow (2+3÷15)	20	18	26	33	35	38	33	44	43	53
21 Net flow of real estate loans/total cash uses (2÷12)	5	3	4	7	7	7	7	7	9	10
22 Net flow of nonreal estate loans/total cash uses (3÷12)	2	3	5	6	6	4	6	8	8	8
23 Cash income/total cash uses (1÷12)	93	94	91	87	87	89	87	85	83	82
24 Debt outstanding/total net cash income	138	141	141	126	100	114	136	143	162	194

^aPreliminary. ^bCash sources of funds from sale of real estate to the nonfarm sector are not included due to the lack of data. ^cDoes not include CCC loans. ^dGross cash farm operating expenses have been deducted from gross cash farm income. ^eIncludes net additions to household furnishings, commercial bank deposits and currency, and purchases of breeding livestock. Purchases of breeding livestock are estimated as a percentage of total expenditures for the purchase of livestock. Census data are used to estimate the percentage values.

in 1973 to 194 in 1978. These movements toward higher debt relative to income indicate reduced liquidity for farm operators.

Cash Uses of Funds in the Farm Sector

A cash flow statement requires the cash sources of funds equal cash uses of funds. Thus, total cash sources of \$85.9 billion dollars is identical to cash uses of funds. Cash sources of funds can be used to acquire capital assets, purchase consumption items, or for saving.

Farm Capital Flows

Total purchases of farm capital items are estimated at \$31.4 billion for 1978. This represents a 7.9-percent increase over 1977. Most of the increase, however, merely reflects the higher prices paid. For example, purchases of machinery and motor vehicles are estimated at \$10.1 billion, an increase of about 7 percent over 1977. Current estimates suggest that machinery prices have increased by more than that amount. Consequently, machinery purchases in constant dollars are down from 1977.

Capital improvements to real estate assets consist of expenditures on operator dwellings, other buildings, and land improvements. Expenditures for these items in 1978 are estimated at \$6.2 billion, or slightly higher than in 1977. Expenditures for farm storage structures in 1978 have not matched such outlays in 1977. Cement shortages have slowed construction of storage facilities in some areas.

Other capital items include net changes in bank deposits and currency, net additions to household furnishings and equipment, and purchases of breeding livestock. An estimated \$2.4 billion is being spent for such purposes in 1978. Much of the increase is attributable to higher prices for breeding livestock.

Purchases of real estate by established or beginning farmers or nonoperating landlords from discontinuing proprietors in 1978 are estimated at \$12.7 billion dollars, an increase of 7.6 percent over 1977. Land values during 1978, however, are expected to increase by about 9 percent.

Changes in crop and livestock inventories are a relatively small but highly variable component of capital flows. Decisions regarding the holding of yearend inventories are complicated by tax management strategies and varying price

expectations. Unlike other capital assets, most inventories are home grown and not purchased.

Ratios of the net flow of loan funds to purchased capital, or to total capital flows, allow measurement of the relative importance of borrowed funds in financing capital acquisitions. For 1978, the total net flow of loans was 51 percent of the total purchase of capital items. This represents a record high which documents the increased reliance on external sources of funds to finance capital acquisitions in agriculture.

Personal Consumption and Other Cash Uses

Personal consumption and other cash uses of funds include expenditures for food, clothing, taxes, other personal consumption items, and non-farm investments. The value is estimated residually by subtracting total purchased capital and nonfarm investments from total sources of funds. For 1978, personal consumption and other cash uses are estimated at \$54.5 billion, or \$7.6 billion higher than in 1977. In real dollar values (deflating by the GNP price deflator), personal consumption and other cash uses in 1978 are \$1.6 billion higher than in 1977.

OUTLOOK FOR 1979

The overall financial outlook for the farm sector in 1979 appears quite comparable to the second half of 1978. A large carryover of feed grains from 1977, combined with good crop yields in most areas of the country in 1978, suggests that there will be ample feed stocks for 1979. The large supply of grains may result in relatively stable prices during 1979.

The greatest uncertainty about crop production in 1979, as always, is weather. Another important determinant of crop production in 1979 will be Administration decisions regarding set-aside and diversion programs. The set-aside and diversion programs require farmers to idle land to be eligible for program benefits. Depending upon the size of the set-aside program, crop production could be reduced. Concerns over possible crop shortfall due to unfavorable weather, however, will be a consideration in limiting cutbacks. Given current expectations on crop production, prices received for crops are not projected to change much in 1979.

With favorable livestock prices and relatively low feed costs, livestock production is expected to increase during 1979. Expansion is most likely in hogs and broilers because of their rapid reproduction rate. Beef slaughter may decline through 1979 as farmers reduce sales to rebuild

herds. Consequently, projections of prices received vary for different types of livestock, but overall the index of prices received for livestock and livestock products is projected to be higher in 1979 than 1978.

Using current projections of indexes of prices received and paid and of crop and livestock output, quantitative projections of the financial outlook for the farm sector are presented in the following sections. It should be recognized that these projections could change substantially under alternative price and output conditions.

Forecasting Procedures

The balance sheet for January 1, 1980 and cash flow projections for 1979 are developed with the aid of an econometric model of the farm financial sector—the Aggregate Income and Wealth Simulator.¹ The model uses functional equations which have

¹The Aggregate Income and Wealth (AIW) Simulator for the farm sector has been developed and maintained by ESCS economists. The interested reader can write to David Lins, 305 Mumford Hall, Urbana, Illinois 61807, for a working paper which documents the current structure of the model and provides the empirical properties of equations contained in the model.

Table 8—Balance sheet for the farm sector, January 1, 1979 and forecast to January 1, 1980

Item	Current values		Values in 1967 prices		1978 to 1979 with—	
	January 1, 1979 ^a	January 1, 1980 ^b	January 1, 1979 ^a	January 1, 1980 ^b	Current values ^a	Value in 1967 prices ^b
	<i>Billion dollars</i>				<i>Percent change</i>	
Physical assets:						
Real estate assets	573.1	627.7	197.2	197.5	9.5	0.1
Nonreal estate assets ^c	163.4	182.7	72.7	73.5	11.8	1.1
Total physical assets	736.5	810.4	269.9	271.0	10.0	0.4
Financial assets:						
Commercial bank deposits and currency	16.7	17.7	7.4	7.5	6.0	1.4
Other financial assets ^d	21.2	22.2	9.4	9.4	5.2	0.0
Total financial assets	37.8	39.9	16.8	16.9	5.6	0.6
Total farm assets	774.3	850.3	286.7	287.9	9.1	0.4
Debt claims:						
Real estate debt	72.2	81.5			12.9	
Nonreal estate debt including CCC loans	63.7	71.8			12.7	
Total debt	135.9	153.3			12.8	
Equity	638.4	697.0			9.2	
	<i>Percent</i>					
Debt to asset ratio	17.6	18.0			2.3	
Debt to equity ratio	21.3	22.0			3.3	

^aPreliminary estimate. ^bForecast by the AIW simulator. ^cIncludes machinery and motor vehicles, household furnishings and equipment and inventories of crops (including crops held as security for CCC loans) and livestock. ^dIncludes U.S. savings bonds and investments in farmer cooperatives. Does not include financial claims on specific nonfarm assets such as holding of common stock as data on these claims are not available.

been empirically estimated and tested. Projections using such models are based upon the premise that past relationships among variables are a good approximation of what will happen in the future. Preliminary January 1, 1979 balance sheet values are used as the starting point from which more distant projections are made.

The Projected Balance Sheet, January 1, 1980

The projected value of farm assets as of January 1, 1980 is \$850.3 billion (table 8). This represents an increase of 10 percent during 1979. As in other years, much of the increase in value is attributable to unrealized capital gains since asset values in 1967 prices are projected to increase by less than 1 percent.

Real estate values are projected to increase by 9.5 percent in 1979, or just slightly more than the increase in 1978. The increase is expected to exceed the inflation rate in the general economy—a common occurrence in the last two decades. The projected gains in land values are in part a result of gains in actual and expected net farm incomes. Buyer expectations of future capital gains on farmland are also important in determining farmland values.

Financial assets are expected to grow by 5 to 6 percent during 1979. However, the real purchasing power of these assets is expected to remain virtually unchanged from 1978.

Nonreal estate assets include farm machinery and motor vehicles, crop and livestock inventories, and household furnishings and equipment. The total value of nonreal estate assets are forecast to be 11.8 percent higher at the end of 1979 than at the end of 1978. Much of the increase reflects valuation changes, although physical stocks of crops and livestock are also projected to increase.

Farm debt is projected to increase by 12.8 percent during 1979. Real estate debt is expected to grow by more than nonreal estate debt in part because some farm operators will again be refinancing short-term loans with real estate debt. Demand for nonreal estate loans should also remain strong because of the expected increase in costs of purchased inputs.

An increase of \$58.6 billion in the equity of farm proprietors is forecast for 1979. When deflated to measure real purchasing power, proprietor's equities are expected to increase only slightly during 1979. However, unrealized capital gains in current dollars may well exceed farm income during 1979, as has been true each year since 1970.

Projected Cash Sources and Uses of Funds for 1979

Final estimates of 1978 farm income and expenses as well as off-farm income are not yet available. The income and expenditure forecasts for 1978 represent preliminary ESCS estimates when available and model estimates when other estimates are unavailable. These values are compared in table 9 to projection estimates for 1979 developed with the aid of the AIW simulator.

Total net cash sources of funds for 1979 are projected at \$90.3 billion, an increase of about 5 percent over 1978. Modest increases in both off-farm income and net cash farm income are expected. In real dollar terms, however, a decline in income is projected.

Net increases in debt are projected to account for 19 percent of the net cash flow—slightly higher than in 1978. The ratio of debt outstanding to total net cash income is a proxy measure of the liquidity position of farm operators. The higher the ratio of debt to net cash income, the more likely are farm operators to experience liquidity problems. By the end of 1979, farm debt is expected to be more than twice as large as net cash income from farm and nonfarm sources.

Annual capital formation for 1979 is forecast at \$20.8 billion, an increase of \$2.1 billion over 1978. Much of the increase reflects higher prices, particularly for breeding livestock. Purchases of real estate from discontinuing proprietors are expected to increase by 9.5 percent, or about comparable to the expected rate of inflation in land values. Transfers of farmland are expected to increase slightly between 1978 and 1979.

Personal consumption and other cash uses of funds are projected to total \$55.6 billion in 1979, a slight increase over 1978. In real terms, however, personal consumption is expected to decline by about 4.8 percent. The implications of this and other projection estimates follow.

Implications of Projection Estimates

For Farm Lenders: Projection estimates for 1979 indicate that Federal land banks and life insurance companies will continue to experience a high demand for farm real estate loans. Obtaining the funds necessary for such loans should not be a problem. However, the income-generating capacity of the borrowers may be reason for concern.

A study by Lins showed that a substantial portion of the current value of land is attributable

Table 9—Cash sources and uses of funds for the U.S. farm sector, 1978 and projection for 1979

Item	1978 ^a	1979 ^b
Billion dollars		
Cash sources of funds from: ^c		
1 Net cash income from farm and nonfarm sources ^c	69.9	72.9
2 Net flow of real estate loan funds	8.9	9.3
3 Net flow of nonreal estate loan funds ^d ..	7.1	8.1
4 Total cash sources of funds ^e	85.9	90.3
Cash uses of funds: ^e		
5 Purchase of machinery and motor vehicles	10.1	10.8
6 Capital improvements to real estate assets	6.2	6.9
7 Other capital purchases ^f	2.4	3.1
8 Annual capital formation	18.7	20.8
9 Purchases of real estate asset from discontinuing proprietors	12.7	13.9
10 Total purchased capital	31.4	34.7
11 Personal consumption and other cash uses of funds	54.5	55.6
12 Total cash uses of funds ^e	85.9	90.3
Capital flows:		
13 Total purchased capital	31.4	34.7
14 Change in inventories	-1.0	2.3
15 Total capital flow	30.4	37.0
Real dollar flows:		
16 Total net cash income/GNP deflator (1958=100)	31.8	30.9
17 Personal consumption and other cash uses/GNP deflator (1958=100)	24.8	23.6
Percent		
Analytical ratios:		
18 Total purchased capital/total net cash income (10 ÷ 1)	46	48
19 Total net flow of loans/total purchased capital (2 + 3 ÷ 10)	51	50
20 Total net flow of loans/total capital flow (2 + 3 ÷ 15)	53	47
21 Net flow of real estate loans/total cash uses (2 ÷ 12)	10	10
22 Net flow of nonreal estate loans/total cash uses (3 ÷ 12)	8	9
23 Cash income/total cash uses (1 ÷ 12)	82	81
24 Debt outstanding/total net cash income	194	210

^aPreliminary estimate. ^bForecast by the AIW simulator. ^cCash sources of funds from sale of real estate to the nonfarm sector are not included. ^dDoes not include CCC loans. ^eGross cash farm operating expenses have been deducted from gross cash farm income. ^fIncludes net additions to household furnishings, commercial bank deposits and currency, and purchases of breeding livestock. Purchases of breeding livestock are estimated as a percentage of total expenditures for the purchase of livestock. Census benchmark data are used to estimate the percentage values.

to the expectation of future capital gains.² While these unrealized gains improve the collateral value of property pledged as security on loans, they generate no immediate cash flow. Consequently, it is common to find cases where land has been purchased with the aid of borrowed funds, but the net income generated from the land is insufficient to make the loan payments. In these cases, the deficiency in income from the purchased land must be made up from nonfarm income or income from other land which is less encumbered by debt.

A number of farm operators experiencing financial difficulties have considerable equity in land. These operators may find it advantageous to refinance short-term loans into longer-term real estate loans. Such refinancing is likely to continue in 1979, thereby increasing the demand for farm real estate loan funds.

The demand for nonreal estate loans is also expected to remain strong. However, some rural banks have very high loan-to-deposit ratios. Thus, further increases in the loan-to-deposit ratio for these banks may not be feasible. Expansion of loan volume is likely to be curtailed at such banks because deposits may not keep pace with loan demand. Existing customers will continue to be served, but new borrowers may be encouraged to seek other sources of loanable funds.

Because PCA's acquire loan funds through the national money markets, no problems in acquiring funds for agriculture are anticipated. But like other lenders, the repayment capacities of their borrowers are always a concern. Borrowers may attempt to hold inventories in hopes of higher prices. Providing financing for the holding of such inventories will require careful analysis of price forecasts and marketing strategies. Banks have initiated marketing seminars to aid their farm clients in making wise marketing choices.

The FmHA acquired new lending authorities with the passage of the Agricultural Credit Act of 1978. The legislation allows higher lending limits on both farm ownership and farm operating loans. With the passage of the Agricultural Credit Act of 1978, FmHA will be giving greater emphasis to *economic emergency* loans in 1979. Economic emergencies can arise due to a general tightening of agricultural credit or due to an unfavorable relationship between production costs and prices received for agricultural commodities. Economic emergency loans can be used to pay installments on existing debts, refinance existing farm debts, and pay expenses for farm operating purposes. As

such, the program may be used to "bail out" operators who are in financial stress and are currently being financed by another lender.

One of the uncertainties in 1979 for farm lenders will be the dollar volume of crops placed under CCC loan. Loan funds provided through CCC could reduce the demand for operating loans from sources such as banks and PCA's.

For Farm Borrowers: Projections suggest a very modest increase in net farm and off-farm income during 1979. In real dollar terms, however, income is expected to decline. To counteract this decline, farm operators will need to reduce the real level of expenditures on consumption items or reduce their investments.

The projected income estimates suggest that a substantial number of farm operators must become more concerned with repaying old debts and with financing of new acquisitions and operating expenses. Repayment difficulties will likely exist for those operators who are highly leveraged. In some cases, these operators may need to search for new loan sources.

For farm operators who have considerable equity in real estate, loan repayment difficulties may still arise. In cases where loan repayment difficulties are severe, lenders may suggest refinancing with a restructuring toward more long-term debt. However, debt restructuring is not the answer in some cases. For one, debt restructuring will not solve the problem if the farming operation has become inherently unprofitable. Debt restructuring in this case may only prolong the problem and reduce any equity in land which has accumulated. For example, a study by Boehlje has shown that under certain conditions, the sale of assets is preferable to refinancing as a solution to short-term liquidity problems.³ The decision to restructure debt needs to be evaluated carefully.

Acquiring farm real estate to expand farming operations is becoming more and more difficult for many farm operators. As stated previously, the price of land often cannot be justified solely by the current income-generating ability of the land. Rather, expected capital gains on land have become an important part of the price offered. In these cases, current income generated from the land being purchased is inadequate to make the loan payments on money borrowed to finance the purchase.

This deficiency in income-generating potential of land has two direct implications for farmers. First, the purchase of land can be most easily handled by individuals or firms with large

²Lins, David A., "Inflationary Expectations, Land Values, and Farm Finance," paper presented to the Illinois Society of Farm Managers and Rural Appraisers, Springfield, Illinois, September 30, 1978.

³Boehlje, Michael D., "Refinancing: Is It the Solution to Current Credit Problems in Agriculture?," paper presented at the 1978 AAEA meetings, August 1978.

financial reserves or with substantial income from other sources. Young operators may need to rely on off-farm income to support land purchases. Second, because the deficiency per acre is smaller on lower priced land, there may be more buyers in the market for marginal land than for prime agricultural land. Evidence of this trend already exists in many parts of the country.

For Farm Inputs Suppliers: Farm demand for major capital items will likely show no major improvement. Machinery manufacturers and dealers may find it necessary to continue to offer delayed payment and easy credit terms to promote the sales of their product. Suppliers of production inputs such as seed, chemicals, and fuels may experience small reductions in demand for their

products as a result of government set-aside programs. More importantly, because of high interest rates, there may be an increasing tendency for farm operators to delay payments on open accounts.

Input suppliers, particularly those furnishing operating items, will be faced with greater problems over accounts receivable. Increases in open accounts may appear to be an attractive alternative for farm operators who face a liquidity problem and cannot obtain adequate financing from the traditional lending sources. Also, higher interest rates on other loans will tend to slow payments on these accounts. Some suppliers are moving to credit card programs to alleviate their problems with accounts receivable.

TYPE OF FARM

The following section describes the prospective and current financial conditions of major farm types for the United States. An indication of the numbers and location of these units is shown in table 10, and on the maps accompanying the farm types. The numbers of farms, value of farm products produced, and value of land and buildings are from the 1974 Census of Agriculture.

Financial information in this section of the report was received from commercial banks, Farmers Home Administration, Federal intermediate credit banks, Federal land banks, and major life insurance companies making farm loans. This information was used in analyzing the financial condition for 1978 and the outlook for

1979 for the major types of farms. In the statistical tables on financial conditions presented in the farm type reports, only data from commercial banks were included because the number of reports from banks was much larger than from the other lenders.

In general, bankers expect a further improvement in the financial conditions of their borrowers in 1979 for most types. However, income and wealth positions for cotton producers in 1979 are expected to improve only slightly. More marked improvement is expected for cow-calf, dairy, and poultry producers. Some improvement occurred for cash grain producers in 1978 and further improvement is expected for 1979.

Table 10—Numbers and other characteristics of farm types, U.S. 1974 Census by Agriculture

Type of farms ^a	Number of farms (thousands)	Percent distribution	Value of farm products produced		Value of land and buildings December 31, 1974	
			Million dollars	% distribution	Million dollars	% distribution
Cash grain ^b	661.7	39.0	29.1	36.2	136.9	44.2
Livestock	493.8	29.1	22.1	27.4	93.8	30.4
Dairy	196.1	11.6	9.6	11.9	26.9	8.7
Tobacco	95.5	5.6	1.7	2.0	6.2	2.0
Fruit and nut	70.9	4.2	4.5	5.7	13.3	4.3
Poultry	42.7	2.5	6.4	7.9	4.1	1.3
Cotton	30.7	1.8	1.9	2.3	7.6	2.5
Vegetable	19.5	1.2	2.1	2.7	4.6	1.5
Other ^c	84.1	5.0	3.2	3.9	15.5	5.1
All types	1,695.0	100.0	80.6	100.0	308.9	100.0

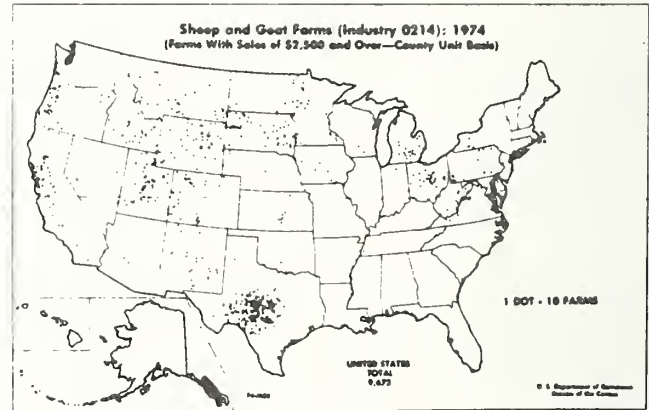
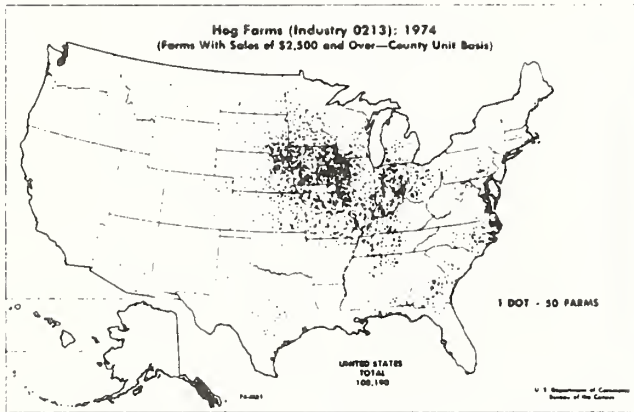
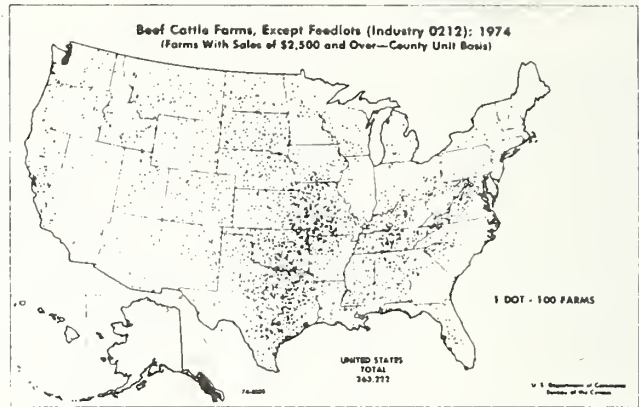
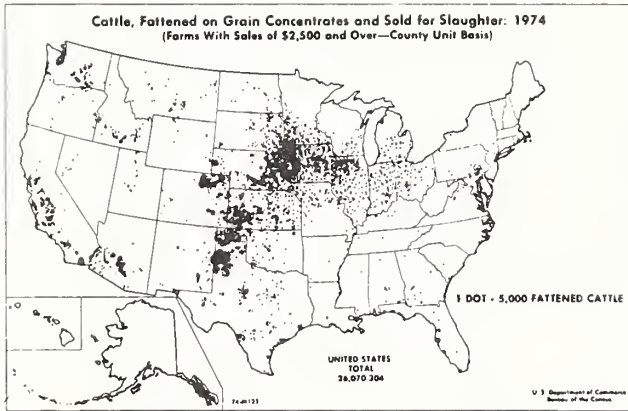
^aBased on distribution of class 1-5 farms (farms with annual sales of farm products of \$2500 or more) by types from the 1974 Census of Agriculture. The type of farm classification indicates a particular product or group of products amounts to 50 percent or more of the total value of all farm products sold during the year. ^bIncludes census type of farms cash grain and field crop. ^cIncludes general farms, animal speciality and unclassified types.

Table 11—Financial condition of U.S. farm borrowers at banks, by type of farm borrower^a

Farm type and item	Estimated Change:			Expected Change:		
	Mid-1977 to Mid-1978			Mid-1978 to Mid-1979		
	Increase	Decrease	Same	Increase	Decrease	Same
<i>Percent of banks reporting</i>						
All type farms						
Net farm income	52.4	31.4	16.2	53.6	16.7	29.7
Net worth	62.2	17.6	20.2	60.7	9.5	29.8
Farms with repayment difficulties	27.7	29.5	42.8	19.7	32.6	47.7
Beef feedlots						
Net farm income	82.6	11.6	5.8	53.0	21.2	25.8
Net worth	83.8	10.3	5.9	64.1	10.9	25.0
Farms with repayment difficulties	13.4	61.2	25.4	14.3	44.4	41.3
Beef, cow-calf farms						
Net farm income	88.0	5.7	6.3	74.3	5.2	20.5
Net worth	83.1	8.7	8.2	76.5	3.6	19.9
Farms with repayment difficulties	12.1	63.2	24.7	9.5	56.6	33.9
Other livestock farms						
Net farm income	68.8	16.7	14.5	58.7	10.9	30.4
Net worth	77.1	10.4	12.5	69.6	4.3	26.1
Farms with repayment difficulties	12.8	48.9	38.3	11.4	38.6	50.0
Dairy farms						
Net farm income	76.0	5.7	18.3	69.6	4.1	26.3
Net worth	82.8	2.8	14.4	76.9	4.2	18.9
Farms with repayment difficulties	11.6	26.0	62.4	14.5	28.9	56.6
Poultry farms						
Net farm income	66.7	17.9	15.4	79.5	7.7	12.8
Net worth	69.2	7.7	23.1	76.9	0	23.1
Farms with repayment difficulties	20.5	35.9	43.6	18.4	34.2	47.4
Cash grain farms						
Net farm income	32.9	47.1	20.0	42.9	22.6	34.5
Net worth	50.2	23.3	26.5	52.5	11.3	36.2
Farms with repayment difficulties	37.7	17.5	44.8	24.2	25.7	50.1
Cotton						
Net farm income	19.2	70.2	10.6	44.7	42.5	12.8
Net worth	36.2	51.1	12.8	46.8	36.2	17.0
Farms with repayment difficulties	50.0	13.0	37.0	47.8	19.6	32.6
Vegetable farms						
Net farm income	54.8	32.3	12.9	51.7	13.8	34.5
Net worth	48.4	19.4	32.2	50.0	10.0	40.0
Farms with repayment difficulties	29.0	32.3	38.7	16.7	30.0	53.3
Fruit and Nut farms						
Net farm income	66.7	20.0	13.3	53.3	10.0	36.7
Net worth	76.7	10.0	13.3	56.7	10.0	33.3
Farms with repayment difficulties	30.0	40.0	30.0	13.3	40.0	47.7

^aCommercial bank survey*respondents in the American Bankers Association survey were asked to indicate the change that had occurred or that they expected to occur, in their borrowers' net worths, and difficulties in making their loan payments. Survey was in August-September, 1978.

LIVESTOCK FARMS



Cattle Feeding—Outlook for 1979

The financial condition of cattle feeders is expected to be good in 1979 primarily due to high prices received for fat cattle relative to lower feed grain costs. However, the average level of net returns to cattle feeders in 1979 may not equal the greatly improved level of 1978.

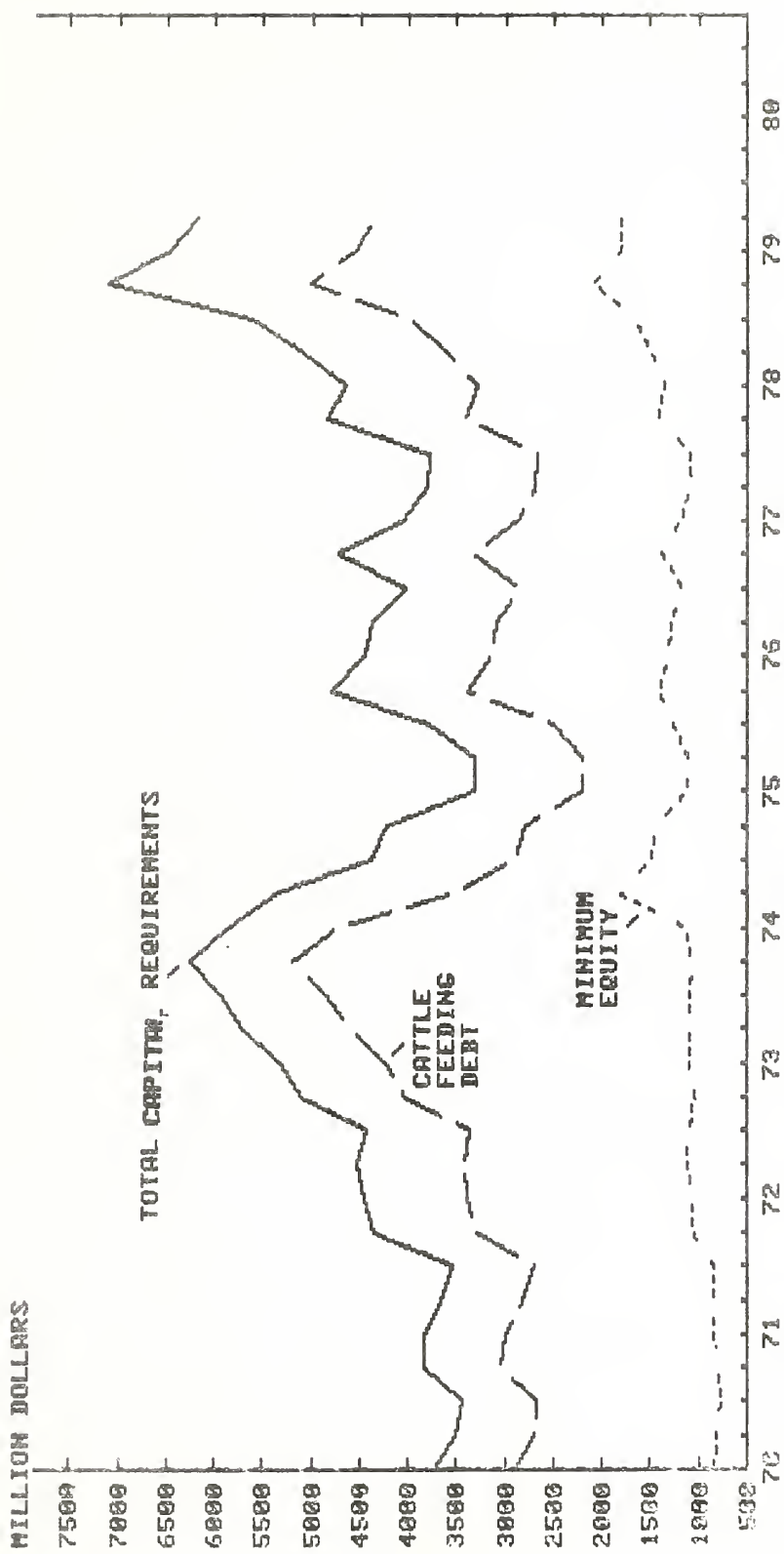
Following several years of liquidation, cow-calf herd rebuilding is expected to get underway in the cattle industry. Thus, competition among feedlot operators to purchase scarce cattle for feedlot replacements will probably push already high feeder cattle prices still higher. Rising costs for feeder cattle will therefore tend to reduce profits of cattle feeders during 1979 relative to 1978.

Placement of cattle in feedlots during the first half of 1979 are estimated to be 3-5 percent above those of 1978 and only slightly less than the record 12.3 million head of 1972. Placements during the last half of 1979 should be near those of a year ear-

lier. Placements during the last half of a given year are usually seasonally larger, particularly during the fall quarter.

With anticipated higher placement of cattle on feed, the demand for loan funds is expected to increase sharply during late 1978 and early 1979. Debt outstanding for cattle feeding is expected to reach near-record levels during this period. However, overall loan demand will probably slacken after the first quarter of 1979 relative to 1978, due to favorable repayment levels and a seasonal decline in loan funds needed for replacements. The level of debt outstanding will also decline seasonally after the first quarter but will remain above year-earlier levels during most of 1979 (figure 5). Indications from bankers are that loan demand for purchases of feeder cattle and for general operating expenses will remain strong throughout 1979 (table 12). No loan fund shortages are expected although interest rates are increasing this fall and are likely to remain at relatively high

CATTLE FEEDING: ESTIMATED AGGREGATE TOTAL CAPITAL REQUIREMENTS, TOTAL AND MINIMUM EQUITY REQUIREMENTS, 23 STATES, 1970-1979*



* BASED UPON MODEL SPECIFICATIONS (SEE LMS-209, USDA, JUNE, 1976).

Figure 5

Table 12--Demand for farm loans and loan portfolio conditions of livestock producers who borrow from commercial banks¹

Item	Estimated change:			Expected change:		
	Mid-1977 to mid-1978			Mid-1978 to mid-1979		
	Increase	Decrease	Same	Increase	Decrease	Same
<i>Percent of banks reporting</i>						
Beef feedlots						
Demand for farm loans						
Feeder cattle loans	77	3	20	76	4	20
General operating loans	77	5	18	65	12	23
Rate of loan repayment	34	22	44	40	18	43
Overall quality of loan	52	12	36	62	7	31
Beef, cow-calf farms						
Demand for farm loans						
Feeder cattle loans	50	19	31	50	13	36
General operating loans	67	16	17	63	11	26
Rate of loan repayment	36	24	40	61	10	29
Overall quality of loan	48	10	42	59	3	38
Other livestock farms						
Demand for farm loans						
Feeder cattle loans	57	7	36	62	13	25
General operating loans	83	2	15	68	2	30
Rate of loan repayment	48	18	34	67	9	24
Overall quality of loan	65	8	27	65	2	33

¹ Data were obtained from a survey conducted by the ABA in Aug.-Sept. 1978.

levels in 1979. Bankers in general indicated a relatively strong financial position for cattle feeders during 1978 and the same is expected for 1979.

1978 Financial Conditions

Most cattle feeders turned a profit on fat cattle marketed during 1978 and record profits were made on cattle marketed during the second quarter (figure 6). A sharp increase in fat cattle prices occurred during this second quarter and fed cattle marketed at this time were purchased and fed at low costs relative to the value of the fat cattle sold.

Subsequently, however, cattle feeders bid up the price of feeder cattle for feedlot replacements and the higher costs of production tempered cattle feeding profits to a large extent. Nevertheless, the financial condition of cattle feeders was the most improved since 1972 and early 1973.

Large numbers of cattle placed on feed this fall have probably increased the total outstanding debt of cattle feeders to a new high. Total capital requirements for the cattle feeding industry are estimated to be more than \$7 billion dollars during the fourth quarter of 1978. Under current equity requirements on lending, about \$5 billion dollars of these capital requirements are estimated to be

financed with borrowed funds. This level is slightly less than the estimated debt financed in the fourth quarter of 1973.

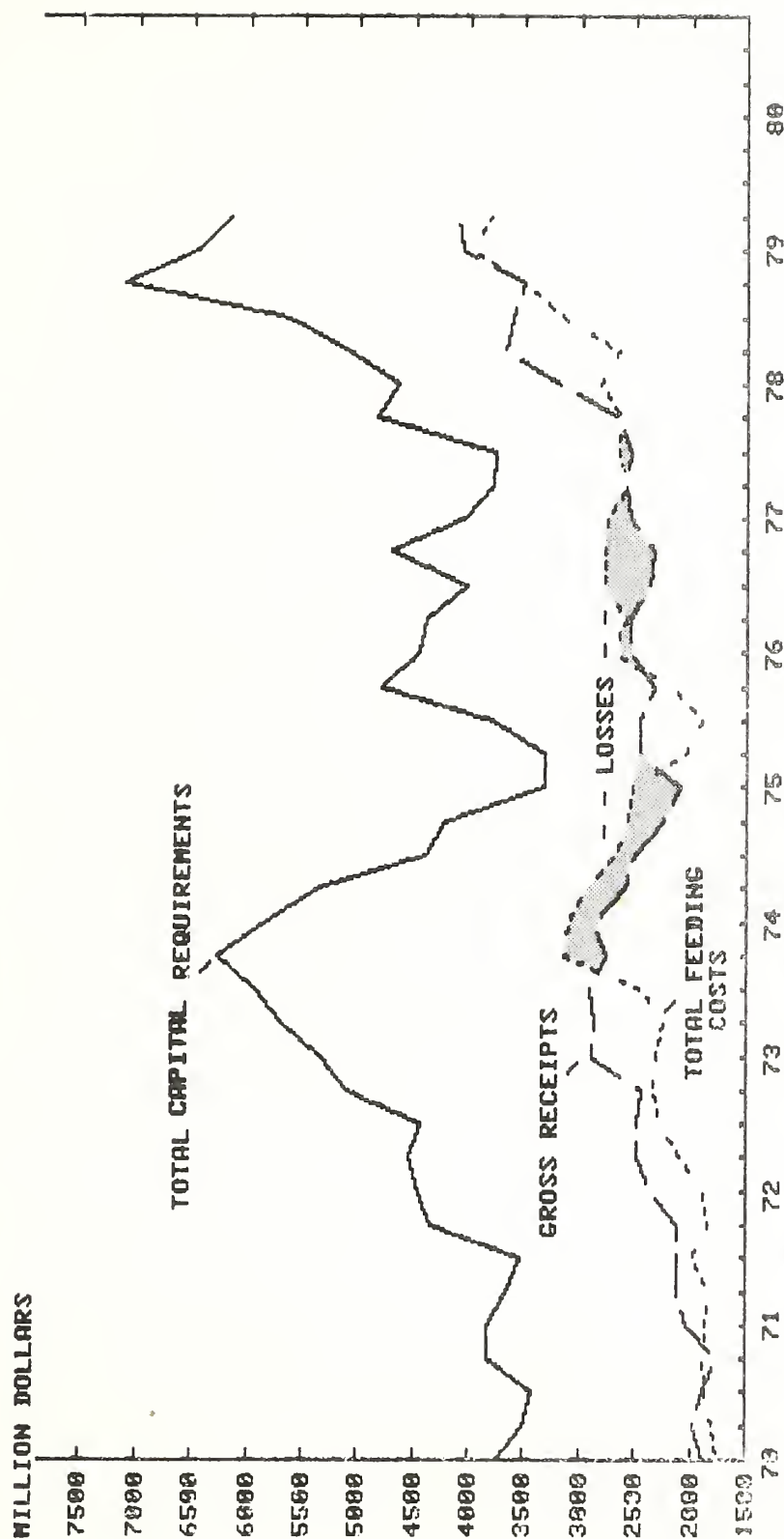
The record level and long duration of losses that occurred in cattle feeding from mid-1973 through 1977 apparently did not permanently affect the capacity of the industry to produce since both placements and capital requirements recently peaked at record levels.

Cow-Calf (Cattle Raising)— Outlook for 1979

Cattle producers will enter 1979 in much better financial condition than on January 1, 1978. Their financial condition should also improve somewhat through the year in view of smaller meat supplies and strong demand for beef which is expected to maintain cattle prices at levels above those of 1978.

Just how rapidly beef cattle producers will respond in expanding beef herds with the prospect of strong demand for feeder cattle over the next few years is uncertain. It may take more than 1 year of cattle prices as high or higher than in 1978 to entice current or new operators to retain a higher proportion of heifers for rebuilding herds comparable to the expansion phase of early 1970's.

CATTLE FEEDING: ESTIMATED AGGREGATE GROSS RECEIPTS, TOTAL FEEDING COSTS, PROFITS AND LOSSES, AND TOTAL CAPITAL REQUIREMENTS, 23 STATES, 1970-1979*



* BASED UPON MODEL SPECIFICATIONS (SEE LMS-209, USDA, JUNE, 1976).

Figure 6

The boom-or-bust cycles characteristic of the industry may have engendered more caution by producers.

A slow buildup of herds would help cattle raisers in terms of higher prices received. Many producers will no doubt require additional loans to expand their production even though their current net incomes are higher. Thus, the demand for cow-calf loans in 1979 will be up. However, the peak demand for loans for purposes of expanding cattle production may not occur until after 1979 because extensive herd rebuilding may not begin that soon.

Commercial bankers indicated they expect the strong demand for general operating loans to continue during 1979. No shortage of loan funds is anticipated in meeting the demand in 1979. Many bankers also expect an increase in the overall quality of loans in 1979 and improvement in the rate of loan repayment.

1978 Financial Conditions

After 4 successive years of unfavorable net earnings, 1978 provided some optimism among operators of cow-calf enterprises. Even though production costs continue to rise, 1978 revenue from the sale of feeder calves and cull breeding stock will exceed costs of production for many producers, providing some returns to operator labor and management and/or investment in land and capital items for the first time since 1973. While high production costs and drought in some areas prompted the continued reduction in herd sizes, the opportunity to improve cash flow has also contributed to a heavy sell-off of beef cows. A number of part-time producers have apparently sold out completely.

In concert with the sharp increase in fat cattle prices, feeder cattle prices rose by more than 50 percent during the first five months of 1978. The downturn in slaughter cattle prices in June had a temporary impact on the price of feeder cattle. But this downtrend was reversed following the release of the July 1 cattle inventory estimates which indicated a 10-percent reduction from 1977 in the number of calves and yearlings not already in feedlots. Subsequent estimates of an anticipated record-large 1978 U.S. corn crop further spurred demand for the reduced feeder cattle supply. As a result, feeder cattle prices going into the fourth quarter of 1978 averaged about 75 percent higher than those of a year earlier.

The continued very heavy sell-off of cows has been somewhat surprising, given the strengthening nature of cattle prices. In part, the sales may have been due to the need to meet cash flow requirements associated with higher production expense from above-normal winter feeding and

maintenance of pasture and forage production. It also reflected uncertainty about future cattle price trends. In some cases, opportunity for shifting to crop enterprises, such as soybeans, where per acre net returns were higher than with livestock, also likely contributed to a continued sell-off of brood cows.

Drought was prevalent in parts of the South during the summer of 1977 and some areas of the South and wide areas of the Southwest were also affected by drought in 1978. Wheat pastures in a rather wide area of the Southern Plains furnished little grazing for cattle during the latter part of 1978. This forced some stocker-feeders to sell calves at lighter weights in 1978, or to place them in feedlots earlier than planned.

Longrun adjustments are occurring in cattle raising in the United States the same as for other types of farms. Commercial farms and ranches reporting beef cows decreased by 45 percent between 1964 and 1974, and the average herd size increased from 27 to 53 cows. Apparently some economies of size exist in cattle raising. However, a significant number of beef cows are produced on farms and ranches where beef cattle raising is a supplemental or secondary enterprise to crop production or nonfarm work. These operators, being more diversified, may be better off financially than those with specialized cattle enterprises. The operators with a combination of crops and beef cattle may be able to operate cattle enterprises at lower costs due to the complementary relationships that exist.

The equity position of most cattle producers is strong and the value of their physical assets and real estate increased in 1978. As a whole, cattle raisers had few problems obtaining financing.

The emergency livestock loan program of the FmHA, started in 1974 and due to expire September 30, 1978, was extended to September 30, 1979. This program has made available guaranteed loan funds through private lenders to some cattle feeders and cow-calf operators to continue their operation. As of September 1978, some 7,650 producers had obtained loans of about \$1,027 million through this program. Fewer than 2 percent of all livestock producers had a loan under this program. With the improved financial conditions for livestock producers during 1978, the number and volume of loans made under this program were curtailed sharply from the previous 3 years.

Hog Outlook for 1979

The economic situation in 1979 is again expected to be relatively favorable, and hog producers will continue to remain in relatively good financial condition. Prices for barrows and

gilt is expected to remain strong and could average near \$50 per hundredweight in the spring. Some price decreases could occur in the latter part of 1979 as third-quarter 1979 slaughter is expected to run moderately above year-earlier levels. Farrowing intentions for late 1978 and early 1979 showed only a modest 3-percent increase but production could be somewhat higher during the first half of 1979. Production could be larger than expected, especially if farmers attempt to utilize a record-large corn crop, if a mild winter minimizes death losses, and if average litter size is increased over the previous year.

Bankers in major hog-producing areas indicated that most hog producers were in a favorable financial position. Most lenders expect demand for loan funds to increase again in 1979 as during 1978. Debt funding of hog producers is expected to be adequate during 1979 with loan repayment rates good.

1978 Financial Conditions

Hog producers improved their financial position in 1978 following a relatively favorable year in 1977. The expansion in hog production and resulting lower prices that many expected in 1978 as a result of the favorable income situation in 1977 did not materialize. Hog prices advanced from near \$40 per hundredweight during the latter part of 1977 and reached a level of near \$50 per hundredweight during the fall of 1978. Adequate supplies of feed grains at favorable relative prices made 1978 a profitable year.

Structural changes in the hog industry have contributed to the current lag in overall expansion in hog supplies. Adjustments in supply are seldom made in small increments of a few brood sows. Most adjustments now involve block or generally larger type capital investment changes. Belief that a profitable year will bring quick industry expansion has no doubt deterred many producers from investing heavily for fear that the profit situation will be gone by the time they expand. In the case of expansion, management problems are major and investment decisions commonly require substantial planning time. Substantial capital is also required. Expansion may also be tempered by uncertainty concerning costs involved with future State and Federal pollution regulations and con-

cern over the effect of a possible ban on the use of nitrites as a preservative.

In 1974, only 450,000 farmers were selling hogs as compared to more than 2 million in 1950. By 1979, the number of hog producers will be well below those in 1974 and farmers selling 1,000 hogs or more annually will have increased from 25 percent of total production in 1974 to more than 40 percent in 1979.

Sheep and Lamb Outlook for 1979

The general financial outlook for sheep and lamb producers appears relatively favorable. No difficulties are expected with respect to sheep and lamb producers receiving debt funding for their operations. A slightly smaller lamb slaughter and relatively stable demand for lamb will continue to keep lamb prices favorable and sheep production relatively profitable.

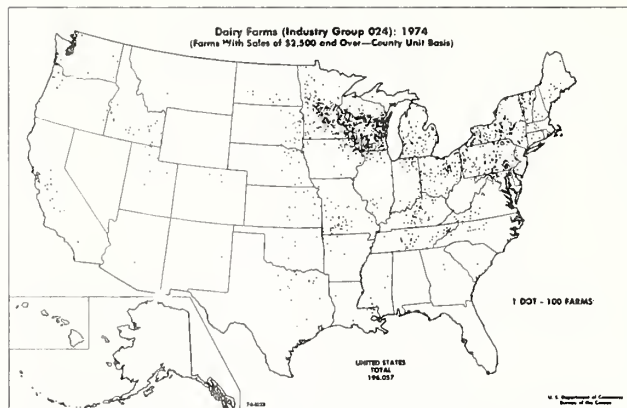
Despite this favorable situation, numbers of sheep on farms will likely continue to decline. Some farm income problems due to inadequate size operations and other problems inherent with sheep production will continue.

1978 Financial Conditions

A unique production situation exists for sheep and lambs in the United States. Several years of favorable lamb and wool prices have made sheep production profitable. Even though the general financial conditions in 1978 and for several past years have been favorable, the number of sheep and lambs on farms declines each year. Persistent problems with predators and labor still discourage expansion.

On January 1, 1978, the inventory of breeding ewes one year and older was 8.5 million head, 4 percent less than a year earlier. The 1978 lamb crop is estimated at 8.02 million head, down 7 percent from 1977 and 10 percent smaller than in 1976. In addition, the 1978 lambing rate is expected to be the lowest since 1969. The rate of reduction was due to the effects of prolonged cold weather last winter and generally poor winter grazing, especially in Texas where lambing was later than usual and the lamb crop was 14 percent below a year ago.

DAIRY OUTLOOK FOR 1979



Milk production in 1979 is expected to total about the same as, or slightly more than, the 1978 level of 122 billion pounds. Meanwhile, milk prices will be considerably higher. Consequently, gross dairy farm income could be up significantly in 1979, particularly in the first half. With relatively low feed prices expected, returns over feed costs probably will stay quite favorable through mid-1979.

The Food and Agriculture Act of 1977 requires a milk price support level of not less 80 percent of parity through March 31, 1979. It also requires that the support price be adjusted semi-annually through March 31, 1981, to reflect changes in the parity index. Thus, it is likely that the support price will be increased on April 1.

On the basis of higher milk prices and larger marketings, gross dairy income in 1979 will likely post gains over 1978. With relatively small increases expected in prices of production items, net income to dairy enterprises likely will be more favorable than the improved levels of this year.

With much of the improvement due to higher milk prices, most dairymen will benefit.

A recent survey of farm lenders and others in dairy areas reflected an optimistic financial outlook for dairy farms in 1979.

The bankers surveyed recently indicated that the financial condition of their dairy farming borrowers had improved in 1978 and further improvements were expected next year (table 11). In fact, the overall financial condition of dairy farmers was viewed by bankers to be as strong as that of any other farm type and stronger than most. In a similar vein, bankers reported that the condition of their loans to dairy producers were strong (table 13). Except for renewals and extensions, the measures of loan quality were improved from 1977 and 1978, and further improvements were expected in 1979. Renewals and extensions were reported to be increasing by more banks than reported decreases. The reason for this was not evident. A moderation was expected next year.

1978 Financial Conditions

This has been a reasonably favorable year for dairy farmers. While production costs have been greater than in 1977, they were more than offset by considerably higher milk prices which have yielded slightly higher cash returns to farmers.

Cash receipts from dairying, which had moved above year-earlier levels in early 1977, have remained above the previous year thus far in 1978. During the third quarter of 1978, cash receipts from dairying were about 6 percent above a year ago as higher prices outweighed the somewhat smaller amount of milk marketed. The year-to-year rise in cash receipts this summer was similar to the rise during the first half of 1978. The autumn

Table 13—Loan portfolio condition of dairy producers who borrow from commercial banks as reported in a survey of commercial banks in dairy farming areas¹

Item	Estimated change:			Expected change:		
	Mid-1977 to mid-1978			Mid-1978 to mid-1979		
	Increase	Decrease	Same	Increase	Decrease	Same
	<i>Percent of banks reporting</i>					
Rate of loan repayments	25.8	14.5	59.7	33.1	4.9	62.0
Rate of renewals and extensions	29.4	8.0	62.6	20.0	17.8	62.2
Rate of delinquencies 30 days and over	13.0	14.0	73.0	8.2	20.1	71.7
Dollar amount of farm losses (charge-offs)	3.4	17.7	78.9	2.3	18.6	79.1
Overall quality of farm loan portfolio	29.4	5.4	65.2	33.7	2.2	64.1

¹ Data were obtained from a survey conducted by the ABA in Aug.-Sept. 1978.

increase in cash receipts probably will be somewhat larger if farm milk prices rise as expected. For all of 1978, cash receipts could exceed \$12.5 billion, up from \$11.8 billion in 1977.

In sharp contrast to the large surplus of milk which existed during the past 2 years, a tightening supply in relation to demand brought wholesale butter and cheese prices up rapidly in late July and early August. Farm milk prices and retail dairy prices rose in response to the higher wholesale prices. As a result of expected lower milk output and strong commercial use, combined with current low commercial stocks, wholesale dairy product prices will likely remain above support price levels through the remainder of 1978.

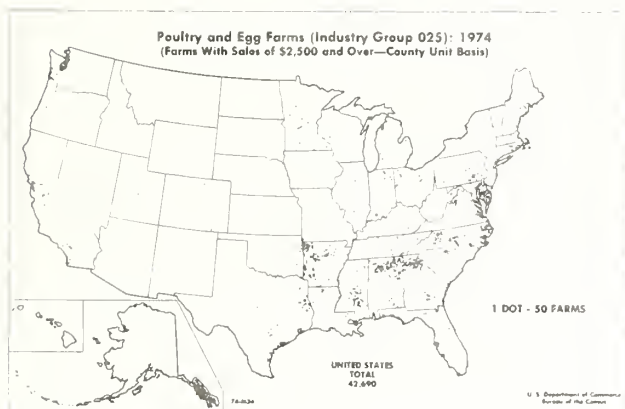
Production costs continue to exceed last year's. The index of prices paid for production items was up about 4 and 6 percent, respectively, during the first and second quarters of the year. The index was up about a tenth during the third quarter. However, this price index was sharply boosted by higher prices for feeder livestock (which do not constitute a major cost for dairymen), and the net income picture probably was similar to the

relatively favorable situation a year ago. If farm milk prices stay strong, income conditions for dairymen may improve further during late 1978 and the first half of 1979.

Dairy farm numbers continue to decline and average farm size continues to increase. However, with relatively large numbers of replacement heifers available and generally favorable conditions for milk production in 1978, total dairy cow numbers declined by only about one percent from year-earlier levels during 1978, even though cull cow prices were much higher than during the previous year.

An autumn survey of farm lenders and others in dairy farming areas indicated that dairy farms in their areas were having a relatively good year financially. A lender in the Northeast commented, "It appears to be a good year for our major enterprise (dairy) and farmers are reacting conservatively (repaying debt)." A reporter from the Pacific Northwest said, "Investment activity has been brisk, especially in the dairy industry where many dairymen are upgrading and/or expanding their operations."

POULTRY OUTLOOK FOR 1979



The general outlook for poultry producers is favorable. Most bankers responding to the financial conditions survey indicated increasing net income and net worth positions for 1979 after a favorable year in 1978 (table 11).

Broiler producers are expected to have another favorable year in 1979. Large 1978 corn and soybean crops will likely mean feed prices only a little higher than a year earlier during most of 1979. Good profits in 1978 and the expectation of fairly stable feed prices in 1979 will bring continued expansion in 1979—perhaps 8 to 10 percent above 1978 levels. Despite greater output, broiler prices may on the average show only a

small decline from 1978. Broiler prices will be bolstered by declining beef output, only a moderate increase in pork output, and further gains in consumer incomes.

Egg producers' net returns in 1979 should improve from 1978 if producers do not overexpand production. Total egg production is expected to increase slightly in 1979. Much of the gain will come from hatching production which will increase as broiler production expands. With only a very small increase in table egg production forecast, egg prices in 1979 should average above 1978 levels. Thus, if feed prices in 1979 average near 1978 levels, net returns will improve.

Turkey producers' returns continue to look very good in 1979. Excellent returns in 1978 will lead to sharp expansion in turkey production in 1979. The seasonally light first-half production in 1979 will likely be 20 to 25 percent above a year earlier. The larger production in 1979 is expected to result in turkey prices averaging below 1978. However, continued high competing meat prices will limit turkey price declines. Thus, 1979 is expected to be a profitable year for turkey producers.

1978 Financial Conditions

Broiler producers had good profit margins throughout 1978 despite a 7 to 8-percent increase in output. Lower total red meat supplies and good

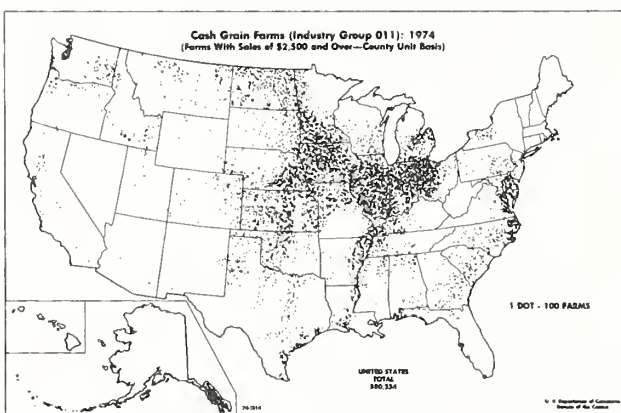
consumer demand for all meats caused prices for all meats (including broilers) in 1978 to average above 1977. The higher broiler prices and a small decline in production costs from a year earlier resulted in good profits for broiler producers in 1978.

Egg producers' returns in 1978 on the average were positive but below those of 1977's returns. Egg production during 1978 was about 2 percent above a year earlier, with the largest increases occurring in the first half. The increased production in the first half of 1978 caused prices to fall sharply below a year earlier. Prices in the

spring were well below producers' costs for producing and marketing eggs. As production slipped back toward year-earlier levels in the second half, prices moved above 1977 levels and most producers made a profit.

Turkey producers' profit margins were excellent in 1978. Although output was 5 to 6 percent above a year earlier, turkey prices averaged well above 1977 levels. High competing meat prices pushed turkey prices in 1978 to their highest annual average in recent history. The higher turkey prices and a drop in production costs from 1977 resulted in excellent profits.

CASH GRAIN FARMS



Cash Grain Outlook for 1979

While net worths of cash grain producers increased, their net incomes were mixed during 1978. There was some easing of the loan repayment difficulties experienced earlier. Cash receipts from soybeans are up sharply, but feed and food grain receipts from marketings are expected to total below 1977 levels. Direct government payments during the year will bring total receipts above those in 1977. Bankers responding to a recent survey expect net farm income of cash grain producers in 1979 to rise above the 1978 level. Loan repayment difficulties should decline (tables 11 and 14). Farmland values are expected to continue to rise.

Demand for loan funds by cash grain producers remains strong. CCC loan program participation and increasing equities were often cited by lenders as important factors in determining approval of new farm loan requests and refinancing of existing debt. Still, the main concern of both lenders and borrowers is the availability of cash income to service-increasing interest and principal payments. FmHA and SBA lending to grain producers

increased substantially in 1978, primarily because of the emergency and disaster loan programs. Such loans will probably be less important in 1979 but lending of FmHA under its new authority will grow.

1978 Financial Conditions

Prices and income received for soybeans were favorable in 1977/78 and are expected to remain so into 1979. Farm feed and food grain prices slipped substantially during the last half of 1977 but recovered during the first half of 1978, thus improving what had been a severe financial situation. Prices and income to cash grain producers were boosted by strong CCC loan activity, deficiency payments, additions to the reserve inventory, heavy export shipments, and increased livestock and poultry feeding. CCC commodity loans outstanding for food and feed grains and soybeans reached about \$4.0 billion on January 1, 1978, and are expected to be slightly higher on January 1, 1979. Government payments to wheat producers approached \$900 million in 1977 and will probably be somewhat higher in calendar 1978. Direct payments to feed grain producers totaled less than \$200 million last year but will total close to a billion dollars in 1978.

Farm credit problems might have been more severe in the grain-producing areas in 1978 than they were had it not been for the increased flow of funds from the FmHA emergency and disaster loan program and the loans of the SBA. Institutional lenders, except FmHA, increased their lending less in 1978 than in 1977. FmHA emergency loans outstanding to all farm borrowers were about \$2.1 billion at the end of 1977, and are projected at around \$4.0 billion at the end of 1978. In addition, more than the usual number of farm real estate loans made in 1978 were primarily for refinancing short-term loans.

Wheat

Growers' acreage adjustments in response to the set-aside and graze-out programs and crop prices, along with less favorable weather, caused the 1978 wheat crop to drop below 2 billion bushels for the first time in three years. With the reduced U.S. crop, the 1978/79 wheat supply will drop nearly 200 million bushels below last year's record 3.1 bil-

lion bushels, though remaining the second largest. Domestic use of the 1978/79 wheat supply may drop because wheat feeding is expected to be cut back. Early indications point to another export year of more than a billion bushels, about matching last season's 1,124 million bushels.

Farm prices are expected to average between \$2.80 and \$3.00 for the season, compared with the \$2.31 average in 1977/78 (table 15). The market

Table 14—Loan portfolio condition of cash grain producers who borrow at commercial banks¹

Item	Estimated change:			Expected change:		
	Mid-1977 to mid-1978			Mid-1978 to mid-1979		
	Increase	Decrease	Same	Increase	Decrease	Same
<i>Percent of banks reporting</i>						
Rate of loan repayments	23	34	43	37	14	49
Overall quality of loans	32	17	51	38	10	52
Rate of renewal or extension	44	14	42	20	29	51
Rate of delinquencies						
30 days and over	15	13	72	7	20	73
Dollar losses on farm loans						
(charge-offs)	7	14	79	7	16	77

¹ Data were obtained from a survey conducted by the ABA in Aug.-Sept. 1978.

Table 15—Average prices received by farmers, loan support, and target price for food and feed grains

	Marketing year			1978		
	1976/77	1977/78	1978/79 (esti- mated)	Aug. 15	Sept. 15	Oct. 15
WHEAT						
Average price received by farmers	2.73	2.31	2.80-3.00	2.88	2.88	3.04
Loan support (\$/bu.)	2.25	2.25	2.35			
Target price (\$/bu.)	2.29	¹ 2.90/2.47	3.40			
CORN						
Average price received by farmers	2.15	2.03	1.95-2.15	2.00	1.92	1.97
Loan support (\$/bu.)	1.50	2.00	2.00			
Target price (\$/bu.)	1.57	2.00	2.10			
RICE						
Average price received by farmers (\$/cwt.)	7.02	9.43	6.50-7.50	8.44	7.57	7.58
Loan support (\$/cwt.)	6.19	6.19	6.40			
Target price (\$/cwt.)	8.25	8.25	8.53			
SORGHUM						
Average price received by farmers	2.03	1.73	1.85-20.5	1.89	1.80	1.85
Loan support (\$/bu.)	1.43	1.90	1.90			
Target price (\$/bu.)	1.49	2.27	2.27			
SOYBEANS						
Average price received by farmers	6.81	5.80	6.25	6.21	6.19	6.41
Loan support (\$/bu.)	2.50	3.50	4.50			
BARLEY						
Average price received by farmers	2.25	1.80	1.80-1.90	1.87	1.85	1.81
Loan support (\$/bu.)	1.22	1.63	1.63			
Target price (\$bu.)	1.28	2.15	2.25			
OATS						
Average price received by farmers	1.56	1.14	1.05-1.15	1.09	1.09	1.14
Loan support (\$/bu.)	.72	1.03	1.03			
Target price (\$bu.)	—	—	—			

¹ Unplanted portion of allotment qualifies for lower amount.

this season is being bolstered by the smaller crop, continued strong export demand, and the reserve inventory. Deficiency payments, based on the \$3.40 target price, are expected to be about 50 cents a bushel.

Comparative budgets for a typical 3,040-acre Montana wheat farm indicate net cash income fell 52 percent from 1975 to 1976 and dropped 59 percent further in 1977. The 1977 income was \$22,552. A \$41,000 rise in net cash income is estimated for 1978, substantially improving financial conditions. Equity in assets increased 34 percent (\$141,929) from 1975 to 1977, and are projected to increase 4 percent (about \$20,000) in 1978 (table 16).

Soybeans

Income prospects for soybean producers are very good in 1978/79. Combining this year's record production with beginning stocks results in a record level of total soybean supplies, up over 5 percent from last year's record. However, strong domestic and foreign markets are expected to further expand utilization.

Given this demand-supply relationship, the average price received by farmers for the 1978-79 marketing year is estimated to exceed \$6 per bushel, approximately a tenth above 1977/78. Soybean prices are expected to be particularly strong in the first half of the marketing season since the United States will be the only major

supplier of soybeans at that time. Prices in the second half (March-August 1979) will depend largely on availability of Brazilian and Argentine soybeans. Brazilian production dropped dramatically this year due to drought. The extent their soybean production can recover this coming year remains to be seen. Prices may soften if Brazilian production is larger than last year. In the United States, the national average for total production costs of soybeans per bushel projected for 1978, excluding land changes, ranges from \$3.41 to \$3.64 assuming a yield of 28.5 to 26.5 bushels per acre.

Corn

Corn prices are expected to average from \$1.95 to \$2.15 per bushel in 1978/79, compared to about \$2.03 for 1977/78. A record corn crop coupled with a large carryover will raise corn supplies for 1978/79 to about 7.9 billion bushels, a record high. This is about 9 percent larger than the record 1977/78 supply. Domestic use of corn will increase again in 1978/79 due to expansion of livestock and poultry feeding. Exports in 1978/79 are forecast to be slightly less than 1977/78. Domestic use and exports will be about 3 to 4 percent more than in 1977/78, which should leave a carryover on October 1, 1979 of about 1.5 billion bushels, an increase of 400 million. The prospect of a larger carryover at the end of 1978/79 will tend to limit price increases during the year.

Table 16--Montana winter wheat on fallow farm¹

Item	Unit	1975	1976	1977	1978 (projected)
Balance Sheet					
Assets (market value) Jan. 1	Dol.	526,012	596,783	656,170	680,034
Debts, Jan. 1	do	108,133	101,758	96,362	100,446
Equity	do	417,879	495,025	559,808	579,588
D/E ratio	do	.26	.21	.17	.17
Net income					
Receipts	Dol.	157,031	99,517	67,736	101,960
Cash cost	do	43,035	44,700	45,182	38,522
Net cash income	do	113,996	54,817	22,552	63,438
Less:					
Depreciation	do	8,260	9,380	11,042	10,256
Operator's family labor and management	do	12,366	12,366	12,366	11,426
Net return to equity	do	93,400	33,071	-856	41,756
Net return to equity	Pct.	22.3	6.7	0	7.2
Cash flow					
Net cash income	Dol.	113,996	54,817	22,552	63,438
Less: Principal payment on debt	do	5,734	6,267	6,716	7,126
Remaining net cash income after principal payment	do	108,262	48,550	15,836	56,312

¹ 3,040 acre farm with 940 acres of winter wheat, 220 acres of barley, and 200 acres of spring wheat. ² Information for this and the following tables was compiled by Leo Strickland, Commodity Economics Division, ESCS, USDA and cited in "Farm Financial Conditions and Prospects" ESCS-33, August 1978.

Comparative budgets for a typical east central Illinois corn-soybean producer indicate a recovery of income levels and rapidly rising equity has improved financial conditions again in 1978 (table 17). (Illinois and Iowa accounted for more than a third of U.S. corn sales and over a third of U.S. soybean sales in 1977.) 1978 net cash income on the Illinois corn-soybean farm is forecast to increase 25 percent to \$35,050. 1978 net cash income still does not match the income levels of 1975 and 1976. A hefty \$73,670 increase in equity is forecast, which is double the net cash income. Equity has increased 68 percent in the last 2 years.

Sorghum

Prospects for a comparatively large carryover on October 1, 1979 suggest that sorghum prices received by farmers during the 1978/79 season will probably average around the \$3.39-per-cwt. loan rate. Any price rise during the course of the marketing year depends largely on the provisions of the 1979 Feed Grain Program and prospects for Southern Hemisphere crop production in early 1979. Sorghum exports in 1978/79 are projected to change little from the 215 million bushels shipped during 1977/78. Sorghum feeding in 1978/79 will probably show only a gain of about 7 percent over the 470 million bushels expected to be fed in 1977/78, despite less competition from feeding of

wheat and prospects for more cattle going on feed in the Southwest.

Rice

Record supplies and little prospect for expanded demand suggest season average farm prices for 1978/79 in a range of \$6.50 to \$7.50 per cwt., down from \$9.43 in 1977/78. Despite reduced stocks, the record 1978 harvest of 138 million cwt. will increase total 1978/79 supplies to a new high of 165 million cwt. With disappearance about equal to last year's, this supply level will lead to increased yearend stocks and lower season average prices for 1978/79. Eligible 1978 rice may be immediately entered into the farmer-owned reserve program, providing producers an added marketing alternative that could help bolster sagging prices. Deficiency payments will be due to growers on production from their 1978 rice acreage allotments if farm prices average below \$8.53 the first 5 months (August-December 1978) of the marketing year.

Comparative budgets for a typical northwest Arkansas rice and soybean farm of 850 acres indicates net cash income for 1978 will drop about \$13,000 but still remain substantially higher than 1975 and 1976 (table 18). Equity is projected to increase \$19,690 which equals 39 percent of net cash income. Net return to equity is projected at 11.6 percent for 1978 compared to 20.7 percent in 1977 and 8.4 percent in 1976.

Table 17—East central Illinois corn-soybean farm¹

Item	Unit	1975	1976	1977	1978 (projected)
Balance Sheet					
Assets (market value) Jan. 1	Dol.	245,416	245,589	309,961	395,666
Debts, Jan. 1	do	47,126	45,128	47,028	59,063
Equity	do	198,290	200,461	262,933	336,603
D/E ratio	do	.24	.23	.18	.18
Net income					
Receipts	Dol.	60,738	67,835	54,493	61,269
Cash cost	do	24,989	24,646	26,486	26,219
Net cash income	do	35,749	43,189	28,007	35,050
Less:					
Depreciation	do	6,492	6,381	6,703	7,216
Operator's family labor and management	do	5,675	6,859	7,511	7,511
Net return to equity	do	23,582	29,949	13,793	20,323
Net return to equity	Pct.	11.9	14.9	5.2	6.0
Cash flow					
Net cash income	Dol.	35,749	43,189	28,007	35,050
Less: Principal payment on debt	do	5,470	5,353	5,758	6,899
Remaining net cash income after principal payment	do	30,279	37,836	22,249	28,151

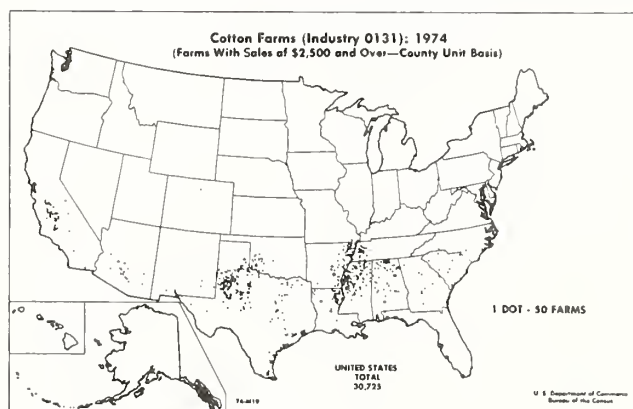
¹ 400-acre farm with 200 acres of corn and 180 acres of soybeans.

Table 18—Arkansas rice and soybean farm¹

Item	Unit	1975	1976	1977	1978 (projected)
Balance Sheet					
Assets (market value) Jan. 1	Dol.	213,232	233,138	258,947	286,204
Debts, Jan. 1	do	61,440	75,798	79,811	87,378
Equity	do	151,792	157,340	179,136	198,826
D/E ratio	do	.40	.48	.45	.44
Net income					
Receipts	Dol.	106,053	103,400	134,372	129,912
Cash cost	do	67,014	65,053	70,966	79,244
Net cash income	do	39,039	38,347	63,406	50,668
Less:					
Depreciation	do	10,089	12,136	13,003	14,042
Operator's family labor and management	do	13,001	13,042	13,275	13,508
Net return to equity	do	15,949	13,169	37,128	23,118
Net return to equity	Pct.	10.5	8.4	20.7	11.6
Cash flow					
Net cash income	Dol.	39,039	38,347	63,406	50,668
Less: Principal payment on debt	do	8,172	9,853	10,565	11,386
Remaining net cash income after principal payment	do	30,867	28,494	52,841	39,282

¹ 850-acre farm with 250 acres of rice, 100 acres of irrigated soybeans, and 400 acres of dryland soybeans.

COTTON OUTLOOK FOR 1979



The financial condition of cotton producers has shown little if any improvement in 1978, according to reports from farm lenders and other knowledgeable people in cotton-producing areas. Both acreage and yield per acre were lower than in 1977 resulting in about one-fourth less production. Production costs per pound are sharply higher, generally, and until recently cotton prices have held well below 1977 levels. The outlook for the financial situation for cotton farmers in 1979 is not particularly good according to bankers' opinions (tables 11 and 19). However, the situation in 1979 will vary considerably by region, and by the extent that their total farm income is derived from cotton.

The 1978 estimated cotton crop of 10.9 million bales is somewhat smaller than the expected 1978/79 disappearance of 11.9 million bales through domestic mill use and exports. As a result, the carryover in the summer of 1979 may be around 4.5 million bales compared with 5.3 million bales on August 1, 1978. This 24-percent smaller cotton crop in combination with recent improvements in exports has improved cotton prices in recent months. Prices in October were about 9 cents per pound above the January 1978 price of 48 cents per pound.

The big question with respect to the outlook for 1979, however, is the level of production in 1979. Production could range from 11 to 14 million bales depending upon weather conditions. However, disappearance may be down, resulting in a buildup in stocks.

The target price for 1978-crop cotton is 52 cents per pound. The target price for the 1979 crop will be based on changes in a 2-year moving average of production costs, and will be announced before December 15, 1978. Farmers who in 1978 planted at least a 20-percent smaller cotton acreage will have target price coverage on their entire crop. Other producers will have target price coverage on about 84 percent of their production. Because the average market price will probably be above the target price of 52 cents per pound, no cotton deficiency

Table 19—Bankers opinions of cotton farmers loan demand and loan quality ¹

Item	Estimated change:			Expected change:		
	Mid-1977 to mid-1978			Mid-1978 to mid-1979		
	Increase	Decrease	Same	Increase	Decrease	Same
	<i>Percent of banks reporting</i>					
Demand for farm loans:						
General operating loans	72	15	13	60	8	32
Real estate loans	26	9	65	14	21	65
Rate of loan repayment	13	28	59	17	28	54
Rate of renewals & extensions	43	13	44	41	17	41
Rate of delinquencies	26	15	59	27	18	55
Overall quality of farm loans	30	23	47	30	24	46

¹ Data were obtained from a survey conducted by the ABA in Aug.-Sept. 1978.

payments are expected on the 1978 crop. The Government payment limitation to a single producer is restricted to no more than \$45,000 in 1979. However, disaster program payments have been removed from those limits.

Not all cotton-producing areas have fared equally in 1978. Drought plagued much of the Texas and Oklahoma cotton-growing areas, substantially reducing yields. Producers in those areas are heavily dependent on cotton. Lower yields on fewer acres is unfavorably affecting their financial condition and cash flow.

The Southeast is the only region which averaged higher yields in 1978 than in 1977 (table 20). But 1977 yields were very low. However, cotton is no longer the main crop on most of these farms. Corn, soybeans, tobacco, and livestock heavily support incomes on most farms producing cotton. The Southeast also has the highest cost of producing a pound of cotton lint. The Delta States are next highest.

If 1979 is like the last several years for cotton producers, cotton production will continue moving out of the Southeast and parts of the Delta States into Texas and farther West where higher yields result in lower unit production costs.

The estimated U.S. average cost of producing a pound of cotton lint and the associated cottonseed in 1978 is around 60 cents, exclusive of a charge for land and management. The average market prices received for cotton since July 1977 have been below that (table 21). By the end of September, about one-fifth of the 1978 upland cotton crop had been contracted for about 56 cents to 57 cents per pound.

Contracting cotton for future sale is an indication of expectations in cotton price movements. If early in the crop year, prices are expected to improve significantly later in the year, farmers tend not to tie their selling price to a level lower than they expect it to be later on, but hold for sale at market prices at harvest or later. However, if cotton producers do not expect prices to rise, advance sales contracts are used more extensively.

Although, normally, farmers receive money only at the time the title to the cotton actually changes hands and not at the time cotton is contracted, they can, and many do, use the contract agreement as an indication of future cash income when negotiating with a lender for a farm loan.

Table 20—Upland cotton: Acreage, yield per acre, production and average cost of production by region, 1977-78¹

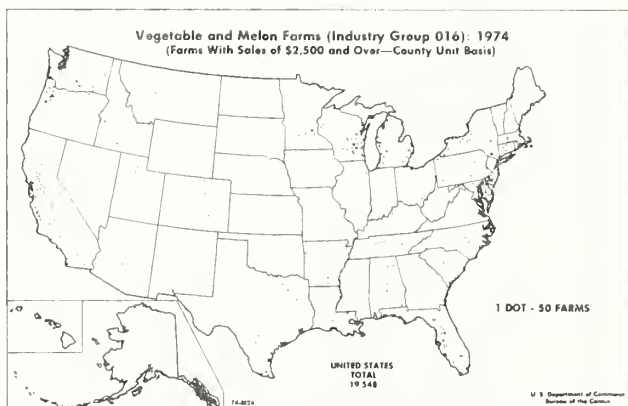
Item	Region								U.S.	
	Southeast		Delta		Southwest		West			
	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978
Acreage (1,000 acres)	715	526	3,487	2,945	6,970	6,650	2,033	2,103	13,205	12,224
Yield (lbs. lint per acre)	337	428	530	463	406	277	949	830	519	424
Production (1,000 bales)	507	470	3,848	2,840	5,901	3,840	4,021	3,640	14,277	10,790
Production costs (cents per lb. of prod.) ²	92	70	51	61	43	61	45	51	47	58

¹ 1978 data preliminary. ² Excludes land charge.

Table 21—Average price received for upland cotton by farmers and volume of upland cotton contracted for sale by region, by months, 1977-78

Month	Average price received by farmers on 15th of month, U.S.		Volume of upland cotton contracted for sale by end of month, 1977 and 1978									
			Southeastern		South central		Southwestern		Far West		U.S.	
	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978	1977	1978
	<i>Cents per lb.</i>		<i>Percent</i>									
February	64.8	48.8	3	1	7	6	12	2	27	15	12	5
March	70.1	50.7	6	2	13	11	15	6	30	29	16	10
April	68.3	50.7	7	3	14	14	15	6	31	28	16	12
May	66.8	53.2	7	5	14	21	16	8	31	33	17	16
June	59.8	54.3	7	5	16	23	18	9	32	33	19	16
July	61.7	57.1	8	5	16	23	18	9	32	33	19	16
August	58.3	56.0	9	12	17	33	19	10	32	33	20	19
September	59.1	55.1	9	15	19	35	19	11	34	35	21	21
October	53.1	57.9										

VEGETABLE FARMS



1979 Outlook

Financial conditions for vegetable producers are expected to improve slightly in 1979 from the generally favorable 1978 position. Indications from commercial bankers are that net income levels will rise or stay equal to 1978 and that net worths will continue to increase (table 11). Also, the majority of bankers surveyed felt fewer operators are expected to have repayment difficulties.

Recent proposed changes to limit acreage under irrigation by a single firm within Federal water project areas have created some uncertainties for vegetable producers in the 17 Western States. The proposed regulations would limit the size of an operating unit by limiting total acreage (combined ownership and leasing) to 960 acres per farm. Farm firms primarily affected would be tomato producers and, to some extent, lettuce and melon growers where farm sizes often exceed this acreage

limit. Also affected would be potato producers in the Columbia Basin in Washington and, to a limited extent, in the Federal water projects in Idaho.

1978 Financial Conditions

Fresh Market Vegetables: Fresh vegetable prices to growers have averaged sharply higher than a year earlier because the usual supply patterns of lettuce, celery, and a few other California vegetables were disrupted during the late spring. Curiously enough, total supplies were not greatly different from a year earlier. In fact, 10 percent more spring lettuce was worth \$260 million against only a more typical \$80 million for the spring of 1977. Onion supplies, which had been expected to be burdensome, proved otherwise. An excessive number of seed stems reduced the marketability of the key Texas crop. As a result of these developments, the f.o.b. value of fresh vegetables came to \$1.2 billion the first half of 1978, sharply higher than \$879 million last year. For the last half of 1978, the f.o.b. value of fresh vegetables will likely exceed 1977, but by a much smaller margin.

Processed Vegetables: Raw tonnage of seven major processing vegetables is expected to fall 8 percent below a year earlier to 10.6 million tons. Growers and processors had planned a substantial tomato acreage cut this year, because carryovers of all tomato products except juice were large. The packs of other vegetables likely will not be enough larger to offset the reduced tomato tonnage. With the base price for cannery tomatoes about a dollar per ton less this year than in 1977 in California, and with minor changes in prices paid growers for

other processing crops, grower receipts from processing vegetables will be substantially smaller this year.

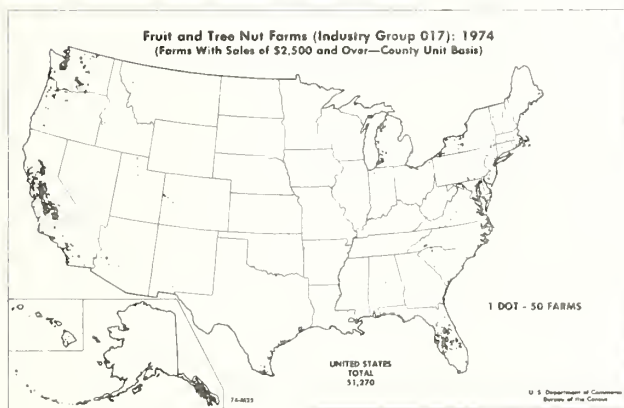
The U.S. fall potato crop of 312 million cwt. is record large, 1.5 percent more than the previous record of 1976 and 2 percent larger than 1977. Supplies are larger than a year earlier in the West, the Midwest has the same quantity, while the East has harvested less.

Processor demand for potatoes is expected to hold generally firm to strong in 1978/79. Although frozen potato stocks are moderately larger than a

year earlier, the increased use of these products suggests no oversupply at this time. Demand for shipping stock is also expected to be good through the winter of 1979. Grower prices for potatoes will be weak, at least for the early part of the storage season.

The 1978 dry bean crop, currently estimated at 18.6 million cwt., is the largest since 1974, and 14 percent above a year earlier. Grower prices for 1978/79 will probably average moderately less than the \$22 per cwt. currently estimated for 1977/78.

FRUIT AND NUT FARMS 1979 Outlook



Fruit and nut growers in general can expect another favorable year in 1979. Prices for fruit and nut products are expected to remain near the relatively high levels of 1978. Most bankers responding to the outlook conditions survey indicated that net income and net worth levels for fruit and nut producers would increase for 1979. Farmers with repayment difficulties were not expected to be a problem by most bankers.

1978 Financial Conditions

Financial conditions for fruit and nut producers have been excellent in 1978. Buoyed by high citrus prices in the spring and smaller crops of most summer fruits, fresh fruit prices remained at high levels throughout the summer. Prices received by farmers for all fruit rose to 273 (1967=100) in September, 12 percent above August and 57 percent higher than in September 1977.

The Nation's grape crop is forecast at a record 4.61 million tons—4.10 million tons in California. Grape prices will remain high, however, because of the poor crop in New York last year, and heavy rains during the first week of September which seriously damaged the raisin crop. The apple crop is up 11 percent from last year. Markets opened with high prices which moderated as the harvest progressed. However, apple prices are expected to remain near year-earlier levels.

The first forecast of the Nation's orange crop, on October 11, was smaller than expected and prices have risen since then. The carryover of orange concentrate is small and export prospects are favorable. Sharply smaller crops of almonds and walnuts and a smaller crop of pecans will keep tree nut prices at high levels throughout the 1978/79 season.

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